Committee(s):	Date(s):	Item no.
Audit and Risk Management	26 July 2011	9
Finance	26 July 2011	7
Subject: City Fund and Pension Funds Financial Statements 2010/11		
Report of: Chamberlain	**Public:** For Decision	

Summary

1. Attached to this report are the City Fund and Pension Funds Financial Statements for the year ended 31 March 2011. The Financial Statements are the first to be prepared on the basis of International Financial Reporting Standards (IFRS) and include restated prior year comparables.
2. The key points are:
   - A net surplus of £4.4m on the City Fund, a better than budget position of £10.1m.
   - Usable City Fund reserves of £234m at 31 March 2011, unchanged from a year earlier - although the split between revenue and capital reserves has changed.
   - Total City Fund net assets of £1,106m, an increase of £182m since last year but this is largely due to the annually updated and somewhat volatile police pension liability.
   - The financial consequence of the transition to IFRS was an increase in total net assets of £25m in the opening balance sheet at 1 April 2010.
3. Deloitte commenced its audit on 13 June and intend to give unqualified opinions on the financial statements. Representatives of the company will be in attendance at the Audit and Risk Management Committee to present their management letters which are appended to this report.

Recommendations

4. The Audit and Risk Management Committee is requested to:-
   - consider the contents of Deloitte's management letters;
   - recommend approval of the City Fund and Pension Funds Financial Statements for the year ended 31 March 2011 to the Finance Committee; and

- delegate to the Town Clerk, in consultation with the Chairman and Deputy Chairman of the Audit and Risk Management Committee, approval of any material changes to the financial statements required before the signing of the audit opinion by Deloitte which is expected to be by the end of July or early August.

5. The Finance Committee is requested to:-
   - consider the resolution from the Audit and Risk Management Committee and, if appropriate, approve the City Fund and Pension Funds Financial Statements for the year ended 31 March 2011; and
   - delegate to the Town Clerk, in consultation with the Chairman and Deputy Chairman of the Finance Committee, approval of any material changes to the financial statements required before the signing of the audit opinion by Deloitte which is expected to be by the end of July or early August.

Main Report

Introduction

6. The City Fund and Pension Funds Financial Statements for 2010/11 are set out in Annex 1. The Accounts and Audit Regulations 2011 require the financial statements to be signed by the responsible financial officer by 30 June. Accordingly I have signed the statements to indicate that they present a true and fair view of the financial position at 31 March 2011.

7. The Accounts and Audit Regulations 2011 further require the approval and publication of the City Fund and Pension Funds Financial Statements for the year to 31 March 2011 to take place as soon as reasonably practicable, and in any event by 30 September 2011. Approval of each year's financial statements has been delegated by the Court of Common Council to the Finance Committee and it is the City's practice for the statements to be agreed by Members and the auditors prior to the summer recess.

International Financial Reporting Standards

8. The 2010/11 financial statements are the first to be prepared on the basis of International Financial Reporting Standards (IFRS) and include restated prior year comparables. This move to an IFRS based Code from

a UK Generally Accepted Accounting Practice (GAAP) based Statement of Recommended Practice (SORP) results in a number of significant changes in accounting policies and practice.

9. The main changes are described on the first page of the explanatory forward to the financial statements and the financial consequences are set out in note 2 to the financial statements in the form of a reconciliation of the opening balance sheet at 1 April 2010 between the old SORP basis and the new IFRS Code.

10. In summary, the transition from the SORP to the IFRS Code increased net assets at 1 April 2010 by £25m to £924m principally due to grants and contributions for capital schemes now being recognised as income when they become receivable. Previously, they were held in a grants and contributions deferred account and recognised as income over the life of the assets which they were used to fund. The impact of this change has been to transfer the balance on the grants and contributions deferred account from liabilities to unusable reserves (i.e. from the top half to the bottom half of the balance sheet).

Revenue Position

11. As set out in the table below, the revenue account reveals an overall net surplus for 2010/11 of £4.4m to be added to the City Fund Unallocated Reserve. This compares with an anticipated transfer from reserves of £5.7m in the budget agreed by the Court of Common Council in March 2011; i.e. an overall favourable movement of £10.1m.

	Budget **£m**	**Actual** **£m**	**Variation Worse (Better)** **£m**
Net expenditure on services	167.3	160.3	(7.0)
Major revenue works projects	1.6	1.4	(0.2)
Requirement before investment income from the City's Assets	168.9	161.7	(7.2)
Interest on balances	(5.4)	(7.8)	(2.4)
Estate rent income	(31.7)	(31.8)	(0.1)
City Fund Requirement	131.8	122.1	(9.7)
Financed by:			
Government formula grant	(104.7)	(104.7)	0.0
City offset	(10.0)	(10.0)	0.0
Council tax	(5.4)	(5.4)	0.0
NNDR premium	(6.0)	(6.4)	(0.4)
Total use of (contribution to) reserves	**5.7**	**(4.4)**	**(10.1)**

12. The better than budget position of £7m on the line 'net expenditure on services' can be analysed on a committee basis as follows:

Committee	Budget £m	Actual £m	Variation (Better)/Worse £m
Barbican Centre	26.9	26.5	(0.4)
Barbican Residential	0.4	0.2	(0.2)
City Lands and Bridge House Estates	8.7	8.3	(0.4)
Community and Children's Services	11.6	10.5	(1.1)
Finance	(0.1)	(2.1)	(2.0)
Libraries, Archives and Guildhall Art Gallery	15.5	15.2	(0.3)
Licensing	0.1	0.1	0.0
Markets	(0.6)	(0.7)	(0.1)
Open Spaces	1.6	1.5	(0.1)
Planning and Transportation	13.0	11.8	(1.2)
Police - exluding transfers to (from) reserves	68.0	65.9	(2.1)
Police - transfers to (from) reserves	(1.8)	0.3	2.1
Policy and Resources	6.0	5.6	(0.4)
Port Health and Environmental Services	18.0	17.2	(0.8)
Total	**167.3**	**160.3**	**(7.0)**

As this analysis relates to 2010/11, the committees are those prior to the Governance Review

13. More detailed analyses of the outturn compared to budget are currently being submitted to committees.

14. In accordance with the City's budget management arrangements, requests for the carry forward of City Fund resources totalling £2.5m are to be considered by the Chairman and Deputy Chairman of the Resource Allocation Sub-Committee. The extent to which these carry forwards are agreed, will increase the call on the City Fund Unallocated Reserve in 2011/12.

15. Even assuming full approval of such requests, the overall City Fund revenue position at this stage shows an improvement of some £7.6m (i.e. £10.1m less £2.5m) over the forecast for the two years 2010/11 and 2011/12 taken together. The detailed factors contributing to this improvement will clearly need to be considered further not only in assessing the justification for each carry forward request, but also in the next annual update of the medium term financial forecast during the late autumn/winter.

Capital Position

16. Expenditure on capital and supplementary revenue projects during the year totalled £45.7m, some £24.7m lower than the budget. This reduction was mainly due to slippage and/or rephasing of expenditure on a number of schemes, primarily relating to investment properties and streetscene projects. A separate report on the 2010/11 outturn in respect of capital and supplementary revenue projects is being prepared.

Balance Sheet

17. The Consolidated Balance Sheet indicates that the City Fund's total net assets increased by £182m (or 20%) to £1,106m from £924m a year earlier. The main reasons for this increase are set out below.

	£m	£m
Long Term Assets		
Net unrealised gain on revaluation of investment properties	26	
Net unrealised loss on revaluation of other fixed assets	(48)	
Acquisitions	39	
Disposals	(9)	
Depreciation and impairment	(4)	
Reduction in long term investments	(35)	
		(31)
Reduction in Police Pension liability		179
Increase in cash and cash equivalents		36
Increase in short term investments		28
Reduction in other net current assets primarily relating to a creditor for national non domestic rates payable to the national pool		(30)
Increase in net assets		182

18. At 31 March 2011 usable reserves were £234m comprising revenue reserves of £144.5m (31/3/10 = £135.4m) and capital reserves of £89.5m (31/3/10 = £98.6m). The addition to revenue reserves is a welcome short term relief to the gradual decline in City Fund balances. However, in view of the serious financial future faced by the City Fund during the continuing difficult economic climate including significant reductions in Government grants, the approved Medium Term Financial Strategy incorporates challenging budget measures towards achieving a sustainable and healthy position over the medium to long term. These include the implementation of 12.5% reductions to most budgets from 2011/12 and

further targeted/selective budget reductions and efficiency programmes are being pursued including those arising from the new procurement arrangements.

19. The reduction in capital reserves of £9.1m reflects the financing of capital expenditure partly offset by capital receipts.

Pension Liabilities

Police Pension Scheme

20. The City Fund's total net assets of £1,106m are after allowing for a negative Pension Reserve £471m (31/3/10 = £650m) which relates primarily to the historic deficit in the unfunded (i.e. the scheme has no assets) Police Pension Scheme. The negative reserve arises from applying the requirements of International Accounting Standard (IAS) 19. This accounting standard is complex, but is based on the principle that an organisation should recognise liabilities for pension benefits as they are earned, even if the payment of such benefits will be many years into the future. The estimated liability is calculated by independent actuaries, Barnett Waddingham.

21. The significant reduction of £179m in the deficit on the Police Scheme relates to the method required for calculating the present day value of future payments from the fund. There has been an increase in the discount rate (the higher the rate the lower the liabilities) coupled with the Government's announcement that it plans to increase future pensions in line with the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) – the expectation being that CPI will generally be lower than RPI and therefore reduce liabilities.

City Corporation Pension Scheme

22. The estimated deficit on the (non-Police) City of London Pension Scheme is not included in the balance sheet. This exclusion arises because the Pension Fund is the responsibility of the City of London as a whole, as one employer, rather than the specific responsibility of any of its three main funds. Thus the City Fund does not have an exclusive relationship with the City of London Pension Fund and the portion of the Pension Fund relating to City of London employee members engaged on City Fund activities is not separately identified. Consequently, in accordance with IAS19, the pension arrangements are treated as a defined contribution scheme in the City Fund accounts. This means that only the

employer's contributions to the scheme are included in the accounts.

23. However certain disclosures are required in the notes to the accounts to satisfy the requirements of IAS19 and these have been included. The estimated overall net liability of the City of London Pension Scheme (relating to the three funds – City Fund excluding police officers, City's Cash and Bridge House Estates) as determined by the actuaries for the purpose of IAS19 is £188m at 31 March 2010, a reduction of £248m in the net liability compared to last year.

24. The factors mentioned in paragraph 21 are the main reasons for the reduction in the deficit. However, as the City Corporation scheme is funded (i.e. has assets) the value of the scheme's investments also have to be taken into account. During 2010/11 the value of the schemes investments increased and, therefore, also contributed to the overall improved position.

25. The employer's pension contribution rate is considered and determined by the Finance Committee following each triennial valuation (updated by any subsequent interim valuations) and is a separate issue from the IAS19 calculations. The City Corporation is consulted on the assumptions used by the actuary for triennial valuations but, as an objective of IAS19 is to ensure that organisations account for pensions costs on a consistent market related basis, there is little scope to deviate from typical market assumptions for the purposes of IAS19.

Audit Opinion and Letter

26. Deloitte intends to give unqualified opinions on the City Fund and Pension Funds Financial Statements subject to clarification of any residual points and to issue its 2010/11 management letters for the City Fund and Pension Fund as set out in Annexes 2 and 3 respectively. Representatives from Deloitte will be in attendance at the Audit and Risk Management Committee to present their reports and to clarify any points or issues.

Subsequent Adjustments to the Accounts

27. Deloitte is expecting to sign its audit opinion by the end of July or early August. Should any material adjustments to the financial statements be required before that position is reached, it is recommended that authority to approve such amendments should be delegated to the Town Clerk in consultation with the Chairmen and Deputy Chairmen of the Audit and Risk Management and Finance Committees.

Publication of the Statement of Accounts

28. As soon as reasonably possible after the conclusion of the audit, and in any event by 30 September 2011, the City is required to publish the 2010/11 City Fund and Pension Fund Financial Statements including the Audit Opinion. After presentation to the Court of Common Council in September, the accounts will be placed on the City's website and in the City's libraries.

Chris Bilsland
Chamberlain

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THE CITY OF LONDON

STATEMENT OF ACCOUNTS FOR THE CITY FUND AND THE PENSION FUNDS

YEAR ENDED 31 MARCH 2011

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CITY OF LONDON

CITY OF LONDON

Statement of Accounts for the City Fund and the Pension Funds Year Ended 31 March 2011

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Introduction

1. This document sets out the 2010/11 City Fund accounts which cover the City's activities as a local authority, police authority and port health authority, together with the accounts of the City of London Pension Fund and the Police Pension Fund. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The City also provides services and activities from City's Cash (a private fund) and from various charities including Bridge House Estates. These funds are accounted for and reported separately.

2. The 2010/11 statement of accounts is the first to be prepared on the basis of International Financial Reporting Standards (IFRS). This move to an IFRS based Code from a UK Generally Accepted Accounting Practice (GAAP) based Statement of Recommended Practice (SORP) results in a number of significant changes in accounting policies and practice.

3. The key changes include:

   - New statements and amended layouts together with requirements for additional notes.
   - Grants and contributions are recognised as income immediately (unless there are conditions attached) rather than being deferred and matched to expenditure.
   - A greater emphasis on component accounting and on derecognising parts of an asset that are replaced.
   - Property leases are classified and accounted for as separate leases of land and building
   - A requirement to assess whether arrangements contain the substance of a lease.
   - Impairment losses are taken initially to the revaluation reserve to the extent that there is a balance on that reserve relating to the specific asset.
   - Gains and losses on investment properties are recognised in surplus or deficit rather than through the revaluation reserve.
   - There is a new classification of non-current assets held for sale to which specific criteria applies.
   - Untaken holiday pay and similar personnel benefits are accrued for at year end, so that the appropriate amount of costs are reflected in the year's surplus or deficit.

4. Amounts included for 2009/10 have been restated from those published last year to adjust them onto the IFRS basis. Note 2 provides detail of these adjustments. The most significant changes relate to grants and contributions, leases and holiday pay.

5. This document comprises the following statements and notes. The purpose of each statement is set out as part of that statement.

   - Movement in Reserves Statement
   - Comprehensive Income and Expenditure Statement
   - Balance Sheet
   - Cash Flow Statement
   - Notes to the accounts including Accounting Policies
   - Housing Revenue Account
   - Collection Fund
   - City Corporation Pension Fund
   - Police Pension Fund

Overall Financial Position on the City Fund

6. The following table is an extract from the financial statements and shows that after taking into account those items which the City of London, as a local authority, is required by statute and non-statutory proper practices to debit or credit to the City Fund, together with transfers to earmarked reserves which the City has decided to make, the movement on the Unallocated Reserve for 2010/11 was an increase of £4.4m compared to a £0.7m increase in 2009/10.

	2010/11 £m	2009/10 £m
Cost of Services	165.1	167.5
Other operating expenditure/(income)	(11.8)	0.3
Financing and investment income	(26.5)	(85.6)
Taxation and non specific grant income	(138.3)	(132.1)
Surplus on the provision of services	(11.5)	(49.9)
Deduct deficit on the HRA	(0.8)	(1.1)
Adjustments between accounting basis and funding basis under regulation	2.4	39.9
Transfers to Earmarked Reserves	5.5	10.4
Increase in City Fund Unallocated Reserve	(4.4)	(0.7)

7. Usable reserves at 31 March 2011 are £234m which is unchanged from a year earlier. The usable reserves include £15.8m (2009/10: £16.7m) relating to the Housing Revenue Account (HRA) which is ring-fenced by statute for housing purposes.

	2010/11 £m	2009/10 £m
Usable revenue reserves	144.5	135.4
Usable capital reserves	89.5	98.6
Total usable reserves	234.0	234.0

8. The £9.1m reduction in usable capital reserves is the result of sums applied to finance capital expenditure partly offset by proceeds from disposals during the year. The £9.1m increase in usable revenue reserves relates to the £4.4m increase in the Unallocated Reserve and a £5.5m net transfer to earmarked reserves partly offset by a reduction in the HRA reserve of £0.8m.

2010/11 Revenue Outturn compared to Budget

9. Set out below is a summary comparing actual expenditure for the year with the latest budget approved by the Court of Common Council.

	Budget **£m**	**Actual** **£m**	**Variation Worse (Better)** **£m**
Net expenditure on services	167.3	160.3	(7.0)
Major revenue works projects	1.6	1.4	(0.2)
Requirement before investment income from the City's Assets	168.9	161.7	(7.2)
Interest on balances	(5.4)	(7.8)	(2.4)
Estate rent income	(31.7)	(31.8)	(0.1)
City Fund Requirement	131.8	122.1	(9.7)
Financed by:			
Government formula grant	(104.7)	(104.7)	0.0
City offset	(10.0)	(10.0)	0.0
Council tax	(5.4)	(5.4)	0.0
NNDR premium	(6.0)	(6.4)	(0.4)
Total use of (contribution to) reserves	**5.7**	**(4.4)**	**(10.1)**

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10. The £4.4m added to the Unallocated Reserve compares to the budget assumption that £5.7m would be required from the Reserve. This better than budget position of £10.1m is summarised in the City's management accounts as follows:

	(Better)/ Worse than Budget £m
Expenditure on capital and major revenue projects	(2.4)
Interest earned on cash balances	(2.4)
City Police	(2.1)
Unused contingencies	(1.6)
Car parks	(1.1)
Housing services	(0.8)
Specific Government Grants	(0.8)
Libraries, Archives and Guildhall Art Gallery	(0.7)
Cost of collecting National Non Domestic Rates and Council Tax	(0.7)
Planning services	(0.7)
Environmental services	(0.7)
VAT claim	(0.5)
Central Criminal Court	(0.4)
Services to adults and older people	(0.4)
Income from National Non Domestic Rates Premium	(0.4)
Family and young people's services	(0.3)
Barbican Centre	(0.3)
Corporate and democratic services	(0.3)
Aggregate of small variations against budget on other services	(0.8)
Net increase in transfers to earmarked reserves as a result of the better than budget positions on a number of services	7.3
Total change in requirement from Unallocated Reserve	**(10.1)**

2010/11 Capital Outturn compared to Budget

11. The approved capital budget for 2010/11 totalled £70.4m. Actual capital expenditure during the year was £45.6m, an underspend of £24.8m compared with the budget. This reduction was mainly due to slippage and/or rephasing of expenditure on a number of schemes, primarily relating to investment properties and streetscene projects.

City Fund Total Assets and Liabilities

12. As at 31 March 2011, the City Fund Balance Sheet indicates that total assets exceed total liabilities (i.e. net assets) by £1,106m an increase of £182m compared to the previous year. The net assets are represented by usable and unusable reserves of £234m and £872m respectively. The main reasons for the increase in net assets are set out below:

	£m	£m
Long Term Assets		
Net unrealised gain on revaluation of investment properties	26	
Net unrealised loss on revaluation of other fixed assets	(48)	
Acquisitions	39	
Disposals	(9)	
Depreciation and impairment	(4)	
Reduction in long term investments	(35)	
		(31)
Reduction in Police Pension liability		179
Increase in cash and cash equivalents		36
Increase in short term investments		28
Reduction in other net current assets primarily relating to a creditor for national non domestic rates payable to the national pool		(30)
Increase in net assets		182

Capital Borrowing

13. The City has not had loan debt for many years as it has been able to finance its full capital spending from its own resources or external contributions and, in the light of the City's overall financial position, it is not intended that any borrowing will be required in 2011/12. However, the 'borrowing option' is kept under review.

Pension Liabilities

14. The 2010/11 Balance Sheet includes a pension liability of £471m (2009/10: £650m). The liability arises from applying the requirements of International Accounting Standard (IAS) 19. This accounting standard is complex, but is based on the principle that an organisation should recognise liabilities for pension benefits as they are earned, even if the payment of such benefits will be many years into the future. The liability relates primarily to the historic deficit in the unfunded Police Pension Scheme. The significant reduction of £179m in the deficit relates to the method required for calculating the present day value of future payments from the fund. There has been an increase in the discount rate (the higher the rate the lower the liabilities) coupled with the Government's announcement that it plans to increase future pensions in line with the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) – the expectation being that CPI will generally be lower than RPI and therefore reduce liabilities.

15. The estimated deficit on the (non-Police) City of London Pension Scheme is not included in the balance sheet. This exclusion arises because the Pension Fund is the responsibility of the City of London as a whole, as one employer, rather than the specific responsibility of any of its three funds. Thus the City Fund does not have an exclusive relationship with the City of London Pension Fund and the portion of the Pension Fund relating to City of London employee members engaged on City Fund activities is not separately identifiable. Consequently, in accordance with IAS 19, the pension arrangements are treated as a defined contribution scheme in the City Fund accounts. This means that only the employer's contributions to the scheme are included in the accounts as they become payable. The deficit on the City of London Pension Scheme at 31 March 2011 is £188m ((2009/10: £436m). The factors mentioned in paragraph 14 are the main reasons for the reduction in the deficit. However, as the City of London Pension Scheme is funded (i.e. has assets) the value of the scheme's investments also have to be taken into account. During 2010/11 the value of the schemes investments increased and, therefore, also contributed to the overall improved position.

Impact of Economic Climate

16. The continuing difficult economic climate has been exacerbated by the Local Government Finance Settlement which has resulted in significant reductions in Government grants from 2011/12 with further reductions signalled from 2013/14 to cover the four year period of the Government's Comprehensive Spending Review.

17. In response, to balance the budget over the medium term with limited drawings from reserves, it has been necessary to implement a budget reduction of 12.5% to most activities from 2011/12 whilst endeavouring to minimise the impact on front line service delivery. This decrease is in addition to targeted/selective budget reductions and efficiency programmes which are being pursued to address the continuing impact of low interest rates on interest earnings and the challenge of maximising rental incomes from investment properties although the latter has been and remains relatively resilient.

18. Other measures include constraining spending on capital and major revenue projects to the highest corporate priorities and considering investment property opportunities where there is a good covenant and attractive returns in comparison with interest earnings on deposits.

Risk Management

19. The City of London has established a robust programme of risk management as a key element of its strategy to preserve its assets, enhance efficiency for service users and members of the public and protect its employees.

20. The Strategic Risk Management Group has a remit to ensure that risk management policies are applied, that there is an ongoing review of risk management activity and that appropriate advice and support is provided to Members and officers.

21. The Strategic Risk Register codifies key strategic risks and assigns responsibility for taking action to mitigate each risk to a named Chief Officer.

22. A Governance Statement is reviewed and updated annually. The Governance Statement is being considered by the Audit and Risk Management Committee in July 2011 and will be available at www.cityoflondon.gov.uk.

Statement of Responsibilities

23. Local Authorities are required to include in their statement of accounts a Statement of Responsibilities which sets out the respective responsibilities of the authority and relevant financial officer for the accounts. These respective responsibilities are given on page 8.

24. The City of London is responsible for the maintenance and integrity of the corporate and financial information included on the Corporation's website. Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

The City of London's Responsibilities

The City of London is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. This officer is the Chamberlain.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts

The Chamberlain's Responsibilities

The Chamberlain is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("the Code").

In preparing this Statement of Accounts, the Chamberlain has:

- selected suitable accounting policies and then applied them consistently;
- made judgments and estimates that were reasonable and prudent;
- complied with the local authority Code.

The Chamberlain has also:

- kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Chamberlain's Certificate

I certify that the Statement of Accounts gives a true and fair view of the financial position of the City Fund and the Pension Funds of the City of London at the reporting date and of its expenditure and income for the year ended 31 March 2011.

C Bilsland

Chris Bilsland

Chamberlain of London

Date: 30 June 2011

CITY FUND MOVEMENT IN RESERVES STATEMENT

This statement show the movement in the year on the different reserves held by the City, analysed into "usable reserves" (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the City Fund Balance for council tax setting and the Housing Revenue Account for dwellings rent setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory City Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves.

	Notes	City Fund Balance	Earmarked City Fund Reserves	Housing Revenue Account	Capital Receipts Reserve	Capital Grants Unapplied	Major Repairs Reserve	Total Usable Reserves	Unusable Reserves	Total Reserves
		£m	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 31 March 2009		(47.8)	(71.3)	(6.3)	(134.5)	(0.9)	(10.4)	(271.2)	(777.0)	(1,048.2)
Movement in reserves during 2009/10										
(Surplus) or deficit on provision of services		(50.4)	0.0	0.5	0.0	0.0	0.0	(49.9)	0.0	(49.9)
Other Comprehensive Income and Expenditure		0.0	0.0	0.0	0.0	0.0	0.0	0.0	174.5	174.5
Total Comprehensive Income and Expenditure		**(50.4)**	**0.0**	**0.5**	0.0	**0.0**	**0.0**	**(49.9)**	**174.5**	**124.6**
Adjustments between accounting basis and funding basis under regulations	7	39.3	0.0	0.6	49.0	(0.7)	(1.1)	87.1	(87.1)	0.0
Net (increase) or decrease before transfers to earmarked reserves		**(11.1)**	**0.0**	**1.1**	**49.0**	**(0.7)**	**(1.1)**	**37.2**	**87.4**	**124.6**
Transfers to or from earmarked reserves	8	10.4	(10.4)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(Increase) or decrease in 2009/10		**(0.7)**	**(10.4)**	**1.1**	**49.0**	**(0.7)**	**(1.1)**	**37.2**	**87.4**	**124.6**
Balance at 31 March 2010		**(48.5)**	**(81.7)**	**(5.2)**	**(85.5)**	**(1.6)**	**(11.5)**	**(234.0)**	**(689.6)**	**(923.6)**
Movement in reserves during 2010/11										
(Surplus) or deficit on provision of services		(36.6)	0.0	25.1	0.0	0.0	0.0	(11.5)	0.0	(11.5)
Other Comprehensive Income and Expenditure		0.0	0.0	0.0	0.0	0.0	0.0	0.0	(171.3)	(171.3)
Total Comprehensive Income and Expenditure		**(36.6)**	**0.0**	**25.1**	**0.0**	**0.0**	**0.0**	**(11.5)**	**(171.3)**	**(182.8)**
Adjustments between accounting basis and funding basis under regulations	7	26.7	0.0	(24.3)	8.7	0.3	0.1	11.5	(11.5)	0.0
Net (increase) or decrease before transfers to earmarked reserves		**(9.9)**	**0.0**	**0.8**	**8.7**	**0.3**	**0.1**	**0.0**	**(182.8)**	**(182.8)**
Transfers to or from earmarked reserves	8	5.5	(5.5)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(Increase) or decreasein 2010/11		**(4.4)**	**(5.5)**	**0.8**	**8.7**	**0.3**	**0.1**	**0.0**	**(182.8)**	**(182.8)**
Balance at 31 March 2011		**(52.9)**	**(87.2)**	**(4.4)**	**(76.8)**	**(1.3)**	**(11.4)**	**(234.0)**	**(872.4)**	**(1,106.4)**

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CITY FUND COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The City raises taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2009/10 Gross Expenditure £m	2009/10 Gross Income £m	2009/10 Net Expenditure /(Income) £m	Services	Notes	2010/11 Gross Expenditure £m	2010/11 Gross Income £m	2010/11 Net Expenditure /(Income) £m
95.1	(39.6)	55.5	Police Services		103.5	(36.3)	67.2
			Cultural, Environmental, Regulatory and Planning Services				
49.8	(18.5)	31.3	Barbican Centre	35	45.8	(16.0)	29.8
28.8	(2.9)	25.9	Other Cultural and Related Services		30.6	(3.3)	27.3
13.9	(9.1)	4.8	Planning and Development Services		13.8	(9.7)	4.1
27.0	(14.9)	12.1	Environmental and Regulatory Services		32.5	(14.3)	18.2
32.4	(17.9)	14.5	Highways and Transport Services		35.0	(19.6)	15.4
9.6	(6.2)	3.4	Education and Children's Services		8.8	(6.1)	2.7
6.8	(0.5)	6.3	Adult Social Care		7.2	(0.8)	6.4
8.2	(5.6)	2.6	Court Services		14.3	(5.6)	8.7
			Housing Revenue Account (HRA)				
13.4	(12.4)	1.0	Operations		13.6	(12.2)	1.4
0.0	0.0	0.0	Impairment	41	23.9	0.0	23.9
22.7	(21.7)	1.0	Other Housing Services		20.5	(19.2)	1.3
10.1	(3.7)	6.4	Corporate and Democratic Core		10.7	(4.0)	6.7
			Central Services to the Public				
1.4	(0.6)	0.8	Emergency Planning		1.5	(0.7)	0.8
3.0	(1.7)	1.3	Local Tax Collection		3.1	(1.9)	1.2
0.3	0.0	0.3	Elections		0.2	0.0	0.2
0.1	0.0	0.1	Registration of Births, Deaths and Marriages		0.1	0.0	0.1
			Non Distributed Costs				
0.0	0.0	0.0	Past Service Costs (Police Pension)	36, 44	(50.3)	0.0	(50.3)
0.2	0.0	0.2	Other		0.0	0.0	0.0
322.8	**(155.3)**	**167.5**	**Cost of Services**		**314.8**	**(149.7)**	**165.1**
		0.3	Other Operating Expenditure	9			(11.8)
		(85.6)	Financing and Investment Income and Expenditure	10			(26.5)
		(132.1)	Taxation and Non Specific Grant Income	11			(138.3)
		(49.9)	**Surplus on the Provision of Services**				**(11.5)**
		(14.3)	Surplus on the Revaluation of Property, Plant and Equipment	24A			(8.8)
		188.8	Actuarial (Gains)/Losses on Pension Fund Assets/Liabilities	46			(162.5)
		174.5	**Other Comprehensive (Income) and Expenditure**				**(171.3)**
		124.6	**TOTAL COMPREHENSIVE (INCOME) AND EXPENDITURE**				**(182.8)**

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the City. The net assets (assets less liabilities) are matched by the reserves held. Reserves are reported in two categories. The first category is usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt). The second category of reserves comprises those the City is not able to use to provide services. This includes reserves that hold unrealised gains and losses (e.g. the Revaluation Reserve), where amounts only become available if the assets are sold; and reserves holding timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

31 March 2009	31 March 2010		Notes	31 March 2011
£m	£m			£m
646.8	650.0	Property, Plant and Equipment	12	613.3
555.8	676.4	Investment Property	13	717.9
0.2	1.0	Intangible Assets	14	0.8
23.8	171.9	Long Term Investments	16	137.3
14.9	13.9	Long Term Debtors	19	13.2
1,241.5	**1,513.2**	**Long Term Assets**		**1,482.5**
308.9	67.9	Short Term Investments	16	96.1
0.4	0.5	Inventories		0.5
0.0	0.3	Intangible Current Assets	14	0.0
34.0	30.1	Short Term Debtors	18	33.8
22.1	68.6	Cash and Cash Equivalents	20	105.0
365.4	**167.4**	**Current Assets**		**235.4**
(72.9)	(63.5)	Short Term Creditors	21	(93.1)
(72.9)	**(63.5)**	**Current Liabilities**		**(93.1)**
(437.9)	(649.6)	Pensions Liability	44,45	(470.7)
(47.9)	(43.9)	Capital Grants and Contributions Receipts in Advance	38	(47.7)
(485.8)	**(693.5)**	**Long Term Liabilities**		**(518.4)**
1,048.2	**923.6**	**NET ASSETS**		**1,106.4**
(271.2)	(234.0)	Usable Reserves	23	(234.0)
(777.0)	(689.6)	Unusable Reserves	24	(872.4)
(1,048.2)	**(923.6)**	**TOTAL RESERVES**		**(1,106.4)**

C Bilsland

Chris Bilsland,
Chamberlain of London

Date: 30 June 2011

CITY FUND CASH FLOW STATEMENT

This statement shows the change in cash and cash equivalents during the year. It shows how the City generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which services are funded by way of taxation and grant income or from the recipients of services provided by the City. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the City's future service delivery.

2009/10 £m		**Notes**	**2010/11 £m**
(49.9)	Net surplus on the provision of services		(11.5)
40.8	Adjust net surplus on the provision of services for noncash movements		(18.6)
1.1	Adjust for items included in the net surplus on the provision of services that are investing and financing activities		20.7
(8.0)	Net cash inflows from operating activities	25	(9.4)
(47.1)	Investing activities	26	(1.1)
8.6	Financing activities	27	(25.9)
(46.5)	Net increase in cash and cash equivalents		(36.4)
(22.1)	Cash and cash equivalents at the beginning of the reporting period		(68.6)
(68.6)	**Cash and cash equivalents at the end of the reporting period**		**(105.0)**

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1. **Accounting Policies**

The accounting policies set out the specific principles, bases, conventions, rules and practices applied in preparing and presenting the financial statements.

(i) **General**

The Accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2010/11: Based on International Financial Reporting Standards* (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

(ii) **Accruals of Expenditure and Income**

The accounts of the City of London are maintained on an accruals basis. Consequently, income is recognised when works, goods or services have been provided by the City (rather than when the City becomes committed to supply the goods or services). Similarly, expenditure is recognised when works, goods or services have been received (rather than when ordered).

(iii) **Area Based Grant**

Area Based Grant (ABG) is a non ring-fenced general Government Grant comprising a number of Government Grants which were previously required to be spent on specific services. As ABG does not relate to the performance of specific services it is included as non-specific grant income in the Comprehensive Income and Expenditure Account.

(iv) **Cash and Cash Equivalents**

Cash and Cash Equivalents comprise funds repayable to the City without penalty on notice of not more than 24 hours, less cheques and BACS payments issued but not presented. They include money market funds where the amount of cash which will be received is known at the time of initial investment and the risk of changes in value is assessed as insignificant at the time of the initial investment.

(v) **Contingent Assets**

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the City. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the debtor (or cash where consideration has been received) and the related revenue are recognised in the financial statements of the period in which the change in circumstances occurs. Where an inflow of economic benefits or service potential is probable (rather than virtually certain) and can be reliably measured, contingent assets are disclosed as notes to the accounts.

(vi) **Contingent Liabilities**

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the City. Contingent liabilities are assessed continually to determine whether an outflow of resources embodying economic benefits or service potential has become probable. If it becomes probable that an outflow of

future economic benefits or service potential will be required for an item previously dealt with as a note to the accounts, a provision is recognised in the financial statements of the period in which the change in probability occurs (except in circumstances where no reliable estimate can be made). Where a contingent liability exists, but a reliable estimate cannot be made, a note is disclosed in the accounts unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

(vii) **Employee Benefits**

Short-term employee benefits

Short term benefits are those due to be settled within 12 months of the year end. They include such benefits as salaries, wages and employment-related payments.

The cost of leave earned but not taken by employees at the end of the period is recognised within the Surplus or Deficit on the Provision of Services to the extent that employees are permitted to carry forward leave into the following period. However, statutory regulations require this cost to be reversed out of the accounts and this is achieved by crediting the revenue account for 'adjustments between accounting basis and funding basis under regulations' within the Movement in Reserves and debiting the 'statutory adjustments account' on the balance sheet.

Retirement benefit costs

Pension Costs – City of London Staff

With the exception of serving police officers and teachers, City of London staff are eligible to contribute to the City of London Pension Fund, which is a funded defined benefits scheme.

For the purposes of IAS 19, the City of London Pension Scheme is accounted for as a defined contribution scheme. This recognises that the City Fund does not have an exclusive relationship with the City of London Pension Fund and that the Scheme's assets and liabilities cannot be identified to each of the City of London's funds. Consequently, pension costs are accounted for on the basis of contributions payable and no liability for future payments of benefits is recognised in the balance sheet.

Charges are made to revenue for pension costs based on the recommendations of the Fund's actuary so as to spread the full cost of retirement benefits to be met by the Fund over the estimated average service lives of the City of London's staff. Contributions are apportioned to the City Fund on the basis of time spent by each employee on City Fund activities in the year.

Pension Costs – Police Officers and Judges

The Police Pension Scheme is unfunded. Prior to 1 April 2006 each police authority was responsible for paying the pensions of its own former employees on a "pay as you go" basis. Under the current arrangements the City no longer meets pension costs directly; instead it contributes a percentage of police pay into the Police Pension Fund. At the year end the Police Pension Fund is balanced to zero by either receiving a contribution from the City Fund equal to the amount by which the amounts payable from the Pension Fund for the year exceed the amounts receivable or, by paying to the City Fund the amount by which sums receivable by the Pension Fund for the year exceed the amounts payable. Where the City Fund makes a transfer to the Pension Fund, the Home Office will pay an equivalent

top-up grant to the City. Where a transfer is made out of the Pension Fund, the City must pay the amount to the Home Office.

The estimated liability on the Police Pension Scheme is determined by independent actuaries using the projected unit method and in accordance with IAS19. The net cost of service includes the current service cost rather than payments to pensioners, and net operating expenditure includes a pension interest cost. However, the charge required to be made against the Council Tax is based on the amount payable for the year, so the IAS19 costs are reversed out within the Movement in Reserves Statement through an appropriation to the negative pension reserve. In the Balance Sheet the negative pension reserve is matched by a pension liability. Actuarial gains and losses are taken to the Pension Reserve.

The payment of pensions to former judges is the responsibility of the Treasury with the City of London reimbursing the Treasury for the City's share of the liability. The City of London's estimated liability has been determined by independent actuaries in accordance with IAS19. The accounting treatment for the estimated liability is similar to that outlined above for the Police Pension Scheme.

Pension Costs - Teachers

The payment of pensions to former teachers under the Teachers' Pension Scheme, is administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE). The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority. However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Authority. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Children's and Education Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

(viii) **Financial Instruments**

Financial Assets

Financial assets are recognised when the City becomes party to a financial instrument contract (any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another) or, in the case of trade receivables, when the goods or services have been delivered. Financial assets are derecognised when the contractual rights have expired or the asset has been transferred.

Financial assets are initially recognised at fair value. This is defined as the amount for which an asset could be exchanged or a liability settled, assuming the transaction was negotiated between parties knowledgeable about the market in which they are dealing and willing to buy/sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price.

Financial assets are classified into the following categories: held to maturity investments; available for sale financial assets, and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity, and there is a positive intention and ability to hold to maturity. After initial recognition, they are held at amortised cost using the effective interest method, less any impairment. Interest is recognised using the effective interest method.

Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as available for sale or that do not fall within any of the other three financial asset classifications. They are measured at fair value with changes in value taken to the revaluation reserve, with the exception of impairment losses. Accumulated gains or losses are recycled to surplus/deficit on de-recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. They are recognised on the Balance Sheet when the City becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. After initial recognition, they are measured at amortised cost using the effective interest method, less any impairment. Interest is recognised using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, to the initial fair value of the financial asset.

At the end of the reporting period, the City assesses whether any financial assets are impaired. Financial assets are impaired and impairment losses recognised if there is objective evidence of impairment as a result of one or more events which occurred after the initial recognition of the asset and which has an impact on the estimated future cash flows of the asset. The impairment of receivables is based on the age and type of each debt with the percentages applied reflecting an assessment of the recoverability. The loss is recognised in expenditure and the carrying amount of the asset is reduced through a provision for impairment of receivables.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through expenditure to the extent that the carrying amount of the receivable at the date of the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial Liabilities

Financial liabilities are recognised when the City becomes party to the contractual provisions of the financial instrument or, in the case of trade payables, when the goods or services have been received. Financial liabilities are de-recognised when the liability has been discharged, that is, the liability has been paid or has expired.

(ix) **Interest Income**

Interest is credited to the City Fund and Housing Revenue Account based upon average balances held by the Chamberlain of London, and invested by him in the London Money Markets.

(x) **Government Grants and Other Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the authority satisfies the conditions of entitlement to the grant/contribution, there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred.

Where a grant or contribution has been received but the conditions of entitlement have not been satisfied, the grant or contribution is treated as a receipt in advance.

Revenue

Specific, ring-fenced, revenue grants are credited to the appropriate service revenue accounts. Non ring-fenced grants to finance the general activities of a local authority (e.g. Revenue Support Grant) are disclosed in the Comprehensive Income and Expenditure Account within taxation and non specific grant income.

Capital

Where a capital grant or contribution has been received but conditions remain outstanding at the balance sheet date, the grant or contribution is recognised as part of Capital Grants Receipts in Advance. Once the conditions have been met, the grant or contribution will be transferred from Capital Grants Receipts in Advance and recognised as income in the Comprehensive Income and Expenditure Statement.

Where a capital grant or contribution has been recognised as income in the Comprehensive Income and Expenditure Statement, and the expenditure to be financed from the grant or contribution has been incurred at the Balance Sheet date, the grant or contribution is transferred from the City Fund (or Housing Revenue Account) to the Capital Adjustment Account, reflecting the application of capital resources to finance expenditure. This transfer is reported in the Movement in Reserves Statement.

Where a capital grant or contribution has been recognised as income in the Comprehensive Income and Expenditure Statement, but the expenditure to be financed from that grant or contribution has not been incurred at the Balance Sheet date, the grant or contribution is transferred to the Capital Grants Unapplied Account within the usable reserves section of the balance sheet reflecting its status as a capital resource available to finance expenditure. This transfer is reported in the Movement in Reserves Statement. When, at a future date, the expenditure to be financed from the grant or contribution is incurred, the grant or contribution is transferred from the Capital Grants Unapplied Account to the Capital Adjustment Account, reflecting the application of capital resources to finance expenditure. This transfer is reported in the Movement in Reserves Statement.

(xi) **Intangible Assets**

Intangible assets are non-monetary assets without physical substance but are controlled by the City as a result of a past event. They are recognised only when it is probable that future economic benefits will flow to, or service potential be provided to, the City and where the cost of the asset can be measured reliably. Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held can be determined by reference to an active market. In practice, none meet this condition and all are held at amortised cost.

Long Term Intangible Assets

Intangible long term assets comprise computer software licences, which are capitalised at cost. They are not revalued and are amortised over their useful lives.

Amortisation is provided for on all intangible long term assets, calculated by allocation of the Balance Sheet value of the asset, less any residual value, to the periods expected to benefit from its use on a straight line basis. Amortisation charges in respect of the value of intangible assets at the start of the year are charged to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Current Intangible Assets

Intangible current assets, which are represented by unused landfill allowances, are valued at the weighted average value at which allowances have traded during the year.

(xii) **Inventories**

Inventories (stock) are valued at the lower of average cost and net realisable value.

(xiii) **Investment Property**

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured at fair value and is not subject to depreciation.

The net income (or expenditure) from investment properties, after allowing for gains or losses in fair value during the period they arise, is credited (or debited) to 'Financing and Investment Income and Expenditure' below the 'Cost of Services' in the Comprehensive Income and Expenditure Statement.

(xiv) **Investment Property**

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured at fair value and is not subject to depreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are initially measured at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are revalued annually according to market conditions at year end. The net income (or expenditure) from investment properties, after allowing for gains or losses in fair value during the period they arise, is credited (or debited) to 'Financing and Investment Income and Expenditure' below the 'Cost of Services' in the Comprehensive Income and Expenditure Statement.

Under statutory arrangements, revaluation and disposal gains and losses are reversed out of the City Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account apart from any disposal proceeds which are posted to the Capital Receipts Account.

(xv) **Landfill Allowances Scheme**

The fair value of the Landfill Allowance Trading Scheme allowances allocated by government without charge is treated as a government grant. The grant is initially recognised as deferred income in the Balance Sheet and subsequently recognised as income on a systematic basis over the compliance year for which the allowances were allocated.

The fair value for initial recognition purposes is market value at the initial recognition date for allowances allocated by government and for purchased allowances it is cost.

As landfill is used a liability is incurred for the obligation to hold allowances equal to landfill usage. The liability is estimated based on the present market value at the Balance Sheet date of the number of landfill allowances used for the year.

Unused landfill allowances are recognised as intangible current assets at their existing carrying amount if it is equal to or below fair (market) value or written down to fair (market) value if the carrying amount is above fair (market) value.

(xvi) **Leases**

Leases are classified as finance leases when substantially all the risks and rewards of ownership are transferred to the lessee. All other leases are classified as operating leases.

Finance Leases

<u>City as Lessee</u>

The City of London recognises finance leases as assets at the commencement of the lease at amounts equal to the fair value of the property and, where material, liabilities at the lower of the present value of the minimum lease payments or the fair value of the property. Minimum lease payments are apportioned between a finance charge (interest) and a reduction of the outstanding liability. The finance charge element is allocated to revenue and is calculated so as to produce a constant periodic rate of interest on the remaining balance of the liability. Where liabilities are immaterial, a liability is not recognised and the full rental is charged to revenue over the term of the lease.

<u>City as Lessor</u>

Amounts due from lessees under finance leases are recorded in the Balance Sheet as a debtor at the amount of the net investment in the lease. The lease payments receivable are apportioned between repayment of the debtor and finance income. The finance income is credited to revenue and calculated so as to give a constant periodic rate of return from the net investment.

Operating Leases

<u>City as Lessee</u>

Rentals payable, net of benefits received or receivable (e.g. cash incentives for a lessee to sign a lease), are charged to revenue on a straight-line basis over the term of the lease, even if the payments are not made on such a basis, unless another systematic and rational basis is more representative of the benefits received.

<u>City as Lessor</u>

Assets subject to operating leases are included in the Balance Sheet according to the nature of the assets. Rental income from operating leases, excluding charges for services such as insurance and maintenance, are recognised on a straight-line basis over the period of the lease, even if the payments are not received on this basis (e.g. due to lease incentives), unless another systematic and rational basis is more representative of the time pattern in which the benefits derived from the leased asset are diminished.

(xvii) **Non Current Assets held for Sale**

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met when the sale is highly probable, the asset is available for immediate sale in its present condition and management is committed to the sale, which is expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Fair value is open market value including alternative uses.

The gain or loss arising from derecognition of an asset is the difference between the net disposal proceeds, if any, and the carrying amount of the asset. The gain or loss arising from derecognition of an asset is included in Surplus or Deficit on the Provision of Services when the item is derecognised. However, legislation prescribes that the gain or loss is not a proper charge to the City Fund or Housing Revenue Account. As a result the General Fund or Housing Revenue Account is debited (in the case of a gain) or credited (in the case of a loss) with an amount equal to the gain or loss on disposal of the asset (net of any disposal costs), with the consequent entries being:

- an increase to the Capital Receipts Reserve of an amount equal to the disposal proceeds; and
- a charge to the Capital Adjustment Account of an amount equal to the carrying amount of the fixed asset disposal (less any balance transferred from the Donated Assets Account).

If the asset derecognised was carried at a re-valued amount the balance on the Revaluation Reserve in respect of the asset derecognised is transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

(xviii) **Overheads**

The costs of support service overheads, with the exception of expenditure on corporate and democratic activities, are generally apportioned between all revenue accounts on the basis of employee time spent or other resources consumed on behalf of user services. Similarly, with the exception of vacant properties, the costs of support service buildings (including capital charges) are apportioned on the basis of the office area utilised by each service.

(xix) **Property, Plant and Equipment**

Property, plant and equipment comprises the following classes of tangible long term assets; council dwellings, other land and buildings, leasehold improvements, vehicles plant and equipment, infrastructure assets, community assets and assets under construction.

Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised provided that the expenditure is material (generally in excess of £50,000) and the asset yields benefits to the City of London, and the services it provides, for a period of more than one year. This excludes expenditure on routine repairs and maintenance of fixed assets which is charged direct within service costs.

Valuation

All property, plant and equipment are measured initially at cost, representing the cost directly attributable to acquiring or constructing the asset so that it is capable of operating in the manner intended. All assets are measured subsequently at fair value determined as follows:

- Properties regarded as operational - Open Market Value in Existing Use, or where this could not be assessed because there was no market for the subject asset, the Depreciated Replacement Cost based on modern equivalent assets. In some cases, specialist properties have required specialist valuation assumptions or alternative use valuations have been carried out.
- Non-operational assets under construction - historic cost.
- Infrastructure, community and heritage assets- historic cost, net of depreciation, where appropriate.
- Vehicles, plant and equipment - cost, net of depreciation, as a proxy for current value.

All properties included on the balance sheet at fair value are revalued at least once within a five year period as part of a rolling programme with subsequent additions being included in the accounts at their cost of acquisition until the asset is next revalued. Revaluations are carried out sufficiently regularly to ensure that their carrying value is not materially different from their value at the year end.

Revaluations

An increase arising on revaluation is taken to the revaluation reserve unless the increase is reversing a previous impairment loss charged to Surplus or Deficit on the Provision of Services on the same asset or reversing a previous revaluation decrease charged to Surplus or Deficit on the Provision of Services on the same asset, in which case it is credited to expenditure to the extent of the loss or decrease previously charged there.

Where the carrying amount of an item of property, plant and equipment is decreased as a result of a revaluation, i.e. a significant decline in an asset's carrying amount during the period that is not specific to the asset (as opposed to impairment – see below), the decrease is recognised in the Revaluation Reserve to the extent that there is a balance on the reserve for the asset and, thereafter, against the Surplus or Deficit on the Provision of Services.

Legislation prescribes that revaluation gains or losses charged to Surplus or Deficit on the Provision of Services are not proper charges to the City Fund. Such amounts are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal inception following implementation from the 2007 Statement of Recommended Practice. Gains arising before that date have been consolidated in the Capital Adjustment Account.

Impairments

An impairment loss arises if the carrying amount of an asset exceeds its recoverable amount. This could be caused by such factors as a significant decline in an asset's value during the period (i.e. more than expected as a result of the passage of time or normal use),

evidence of obsolescence or physical damage of an asset, a commitment by the authority to undertake a significant reorganisation, or a significant adverse change in the statutory or other regulatory environment in which the authority operates.

An annual assessment takes place as to whether there is any indication that an asset may be impaired. An impairment loss is recognised in the Revaluation Reserve to the extent that there is a balance on that reserve relating to the specific asset and thereafter to the Surplus or Deficit on the Provision of Services.

The reversal of an impairment loss previously recognised in Surplus or Deficit on the Provision of Services will not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. Any excess above this carrying amount is treated as a revaluation gain and charged to the Revaluation Reserve.

Legislation prescribes that impairment losses and reversal of impairment losses charged to Surplus or Deficit on the Provision of Services are not proper charges to the City Fund. Such amounts are transferred to the Capital Adjustment Account and reported in the Movement of Reserves Statement.

Derecognition

The carrying amount of an item of property, plant and equipment is derecognised:

- on disposal, or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from derecognition of an asset is the difference between the net disposal proceeds, if any, and the carrying amount of the asset. The gain or loss arising from derecognition of an asset is included in Surplus or Deficit on the Provision of Services under other operating expenditure.

Legislation prescribes that the gain or loss is not a proper charge to the City Fund or Housing Revenue Account. As a result, the City Fund or Housing Revenue Account is debited (in the case of a gain) or credited (in the case of a loss) with an amount equal to the gain or loss on disposal with the consequent entry being:

- an increase in the Capital Receipts Reserve of an amount equal to the disposal proceeds; and
- a charge to the Capital Adjustment Account of an amount equal to the carrying amount of the fixed asset.

If the asset derecognised was carried at a re-valued amount, an additional entry is required; the balance on the Revaluation Reserve is written off to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

The Capital Receipts Reserve can only be used for new capital investment or set aside to reduce any underlying need to borrow (the capital financing requirement). A proportion of receipts relating to Housing Revenue Account disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government.

Depreciation

Depreciation is provided for on all property, plant and equipment with a finite useful life, other than freehold land. The depreciation charge is calculated by allocating the Balance Sheet value of the asset, less its residual value, to the periods expected to benefit from its use; generally the straight line method has been adopted.

The costs of services includes charges for depreciation for all fixed assets used in the delivery of services based on the value of assets at the start of the year. Where the effects of major additions or disposals occurring during the year are material, these are also reflected in capital charges to service revenue accounts. Assets under construction are not directly used in the delivery of services and therefore do not attract a charge for capital.

Components

<u>Assets other than HRA Dwellings</u>

- Large assets, for example a building, are reviewed to ascertain whether differences in the useful lives of components would have a material impact on the level of depreciation and/or carrying value of the overall assets. These reviews are undertaken:
- when an asset is acquired;
- when an asset is enhanced; and
- when an asset is revalued.

Where there is a material impact on depreciation and/or the carrying value, the components are treated as separate assets and depreciated over their own useful economic lives.

<u>HRA Dwellings</u>

The components of HRA dwellings are reviewed at the same stages as indicated above. However, upon review, all the main components in HRA dwellings (e.g. roofs, windows, central heating, lifts and electrics) are treated as separate assets and depreciated over their own useful economic lives. This facilitates the use of the Major Repairs Reserve which is classified by Government as 'capital' funding.

(xx) **Provisions**

A provision is recognised when:

- the City has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the reporting date. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision.

Once the uncertainty of the amount is removed, provisions are reclassified as creditors in the financial statements.

In the extremely rare case where no reliable estimate can be made, a liability exists that cannot be recognised. Such a liability is disclosed as a contingent liability.

(xxi) **Reserves**

Specific amounts have been set aside as reserves for future policy purposes or to cover contingencies. Details of the City of London's earmarked reserves are set out in the Summary of Movement on Reserves in the notes to the financial statements. Certain reserves are required by the Code to manage the accounting process for tangible fixed assets and retirement benefits and do not represent usable resources. Details of these reserves are set out in the notes to the financial statements.

(xxii) **Revenue expenditure funded from capital under statute**

Legislation allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a fixed asset. The purpose of this is to enable it to be funded from capital resources rather than be charged to the City Fund and impact on that year's council tax. These items are generally grants and expenditure on property not owned by the authority, and amounts directed under statute.

Such expenditure is charged to Surplus or Deficit on the Provision of Services in accordance with the general provisions of the Code. Any statutory provision that allows capital resources to meet the expenditure is accounted for by debiting the Capital Adjustment Account and crediting the City Fund Balance and inclusion as a reconciling item in the Movement in Reserves Statement.

(xxiii) **Value Added Tax**

Income and expenditure excludes any amounts related to VAT as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from it.

(xxiv) **Social Security Deductions**

The City of London accounts centrally for social security deductions as its registration also includes other activities that do not form part of the City Fund. Consequently, current assets and liabilities do not include social security deductions.

2. Transition to International Financial Reporting Standards

The Statement of Accounts for 2010/11 is the first to be prepared on an IFRS basis. Adoption of the IFRS-based Code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009/10 which were prepared under the UK GAAP based Statement of Recommended Practice.

The following tables and associated notes explain the differences between the amounts presented in the 2009/10 financial statements and the equivalent amounts presented in the 2010/11 financial statements.

Reconciliation of Balance Sheet reported under previous GAAP to Balance Sheet under IFRS at the date of transition to IFRS (1st April 2009)

	Previous GAAP	Effect of transition to IFRS Absences	Leases	Grants & Contributions	Other	IFRS
	Notes	a	b	c	d	
	£m	£m	£m	£m	£m	£m
Property, Plant & Equipment	648.6		(1.8)			646.8
Investment Property	555.8					555.8
Intangible Assets	0.2					0.2
Long Term Investments	23.8					23.8
Long Term Debtors	14.9					14.9
Long Term Assets	**1,243.3**	**0.0**	**(1.8)**	**0.0**	**0.0**	**1,241.5**
Short Term Investments	321.7				(12.8)	308.9
Assets held for sale	0.0					0.0
Inventories	0.4					0.4
Short Term Debtors	34.0					34.0
Cash and Cash Equivalents	9.3				12.8	22.1
Current Assets	**365.4**	**0.0**	**0.0**	**0.0**	**0.0**	**365.4**
Short Term Creditors	(119.3)	(2.4)		48.8		(72.9)
Current Liabilities	**(119.3)**	**(2.4)**	**0.0**	**48.8**	**0.0**	**(72.9)**
Government grants deferred	(24.3)			24.3		0.0
Pensions Liability	(437.9)					(437.9)
Capital Grants Receipts in Advance	0.0			(47.9)		(47.9)
Long Term Liabilities	**(462.2)**	**0.0**	**0.0**	**(23.6)**	**0.0**	**(485.8)**
Net Assets	**1,027.2**	**(2.4)**	**(1.8)**	**25.2**	**0.0**	**1,048.2**
Represented by:						
Capital Grants Unapplied	0.0			(0.9)		(0.9)
Other usable reserves	(270.3)					(270.3)
Usable reserves	**(270.3)**	**0.0**	**0.0**	**(0.9)**	**0.0**	**(271.2)**
Investment Properties Revaluation Reserve	202.6				(202.6)	0.0
Revaluation Reserve - Other	(38.6)		0.5		1.0	(37.1)
Capital Adjustment Account	(1,358.5)		1.3	(24.3)	201.6	(1,179.9)
Accumulated Absences Account	0.0	2.4				2.4
Other unusable reserves	437.6					437.6
Unusable Reserves	**(756.9)**	**2.4**	**1.8**	**(24.3)**	**0.0**	**(777.0)**
Total Reserves	**(1,027.2)**	**2.4**	**1.8**	**(25.2)**	**0.0**	**(1,048.2)**

Reconciliation of Balance Sheet reported under previous GAAP to Balance Sheet under IFRS at the end of the latest period presented in the most recent financial statements under previous GAAP (31st March 2010)

	Previous GAAP	Effect of transition to IFRS				IFRS
		Absences	Leases	Grants & Contributions	Other	
Notes		a	b	c	d	
	£m	£m	£m	£m	£m	£m
Property, Plant & Equipment	651.8		(1.8)			650.0
Investment Property	676.4					676.4
Intangible Assets	1.0					1.0
Assets held for sale	0.0					0.0
Long Term Investments	171.9					171.9
Long Term Debtors	13.9					13.9
Long Term Assets	**1,515.0**	**0.0**	**(1.8)**	**0.0**	**0.0**	**1,513.2**
Short Term Investments	133.1				(65.2)	67.9
Assets held for sale	0.0					0.0
Inventories	0.5					0.5
Intangible Current Assets	0.3					0.3
Short Term Debtors	30.1					30.1
Cash and Cash Equivalents	3.4				65.2	68.6
Current Assets	**167.4**	**0.0**	**0.0**	**0.0**	**0.0**	**167.4**
Short Term Creditors	(106.6)	(2.3)		45.4		(63.5)
Current Liabilities	**(106.6)**	**(2.3)**	**0.0**	**45.4**	**0.0**	**(63.5)**
Government grants deferred	(27.5)			27.5		0.0
Pensions Liability	(649.6)					(649.6)
Capital Grants Receipts in Advance	0.0			(43.9)		(43.9)
Long Term Liabilities	**(677.1)**	**0.0**	**0.0**	**(16.4)**	**0.0**	**(693.5)**
Net Assets	**898.7**	**(2.3)**	**(1.8)**	**29.0**	**0.0**	**923.6**
Represented by:						
Capital Grants Unapplied	0.0			(1.5)		(1.5)
Other usable reserves	(232.5)					(232.5)
Usable reserves	**(232.5)**	**0.0**	**0.0**	**(1.5)**	**0.0**	**(234.0)**
Investment Properties Revaluation Reserve	113.2				(113.2)	0.0
Revaluation Reserve - Other	(53.9)		0.5		3.2	(50.2)
Capital Adjustment Account	(1,374.7)		1.3	(27.5)	110.0	(1,290.9)
Accumulated Absences Account	0.0	2.3				2.3
Other unusable reserves	649.2					649.2
Unusable Reserves	**(666.2)**	**2.3**	**1.8**	**(27.5)**	**0.0**	**(689.6)**
Total Reserves	**(898.7)**	**2.3**	**1.8**	**(29.0)**	**0.0**	**(923.6)**

Reconciliation to total Comprehensive Income & Expenditure under IFRS for the latest period in the most recent annual Financial Statements (Year ended 31st March 2010)

	Net Expenditure					
	Previous GAAP	Effect of transition to IFRS: Absences	Leases	Grants & Contributions	Other	IFRS
	Notes	a	b	c	d	
	£m	£m	£m	£m	£m	£m
Gross expenditure, gross income and net expenditure of continuing operations						
Police Services	54.0	(0.1)		1.6		55.5
Cultural, Environmental, Regulatory and Planning Services						
Barbican Centre	31.4	(0.1)				31.3
Other Cultural and Related Services	25.9					25.9
Planning and Development Services	4.8					4.8
Environmental and Regulatory Services	12.1					12.1
Highways and Transport Services	12.7			1.8		14.5
Education and Children's Services	3.4					3.4
Adult Social Care	6.2			0.1		6.3
Court Services	2.6					2.6
Housing Services						
Housing Revenue Account	3.8	0.1			(2.9)	1.0
Other Housing Services	0.3				0.7	1.0
Corporate and Democratic Core	6.3			0.1		6.4
Central Services						
Emergency Planning	0.8					0.8
Local Tax Collection	1.3					1.3
Elections	0.3					0.3
Registration of Births, Deaths and Marriages	0.1					0.1
Non Distributed Costs	0.2					0.2
Cost Of Services	**166.2**	**(0.1)**	**0.0**	**3.6**	**(2.2)**	**167.5**
Other Operating Expenditure	0.3					0.3
Financing and Investment Income and Expenditure	(7.4)				(78.2)	(85.6)
Taxation and Non-Specific Grant Income	(124.5)			(7.6)		(132.1)
(Surplus) or Deficit on Provision of Services	**34.6**	**(0.1)**	**0.0**	**(4.0)**	**(80.4)**	**(49.9)**
Surplus or deficit on revaluation of non current assets	(94.7)				80.4	(14.3)
Actuarial gains / losses on pension assets / liabilities	188.8					188.8
Other Comprehensive Income and Expenditure	**94.1**	**0.0**	**0.0**	**0.0**	**80.4**	**174.5**
Total Comprehensive Income and Expenditure	**128.7**	**(0.1)**	**0.0**	**(4.0)**	**0.0**	**124.6**

IFRS Transition Notes

a. Short-term accumulating compensated absences

Short-term accumulating compensated absences refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the authority. The most significant benefit covered by this heading is holiday pay.

Employees build up an entitlement to paid holidays as they work. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render service that increases their entitlement to future compensated absences. As a result, the authority is required to accrue for any annual leave earned but not taken at 31 March each year. Under the previous accounting arrangements no such accrual was required.

The Government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account (apart of unusable reserves) until the benefits are used.

b. Leases

Under the Code, leases of property are accounted for as separate leases of land and buildings. Previously, each property lease would have been accounted for as a single lease. The change in accounting treatment can result in the land or buildings element of the least being accounted for as an operating lease where it was previously treated as a finance lease; or as a finance lease where it was previously treated as an operating lease.

The City of London has six properties held under finance leases which are now required to be disaggregated into separate land and building elements. The buildings elements continue to be treated as finance leases but the land elements have been reclassified as operating leases. This has resulted in land with a value of £1.8m being excluded from Fixed Assets on the City Fund Balance Sheet as at 31 March 2010.

c. Grants and Contributions

Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, they were held in a grants and contributions deferred account and recognised as income over the life of the assets which they were used to fund.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- The balance on the Grants and Contributions Deferred Account at 31 March 2009 has been transferred to the Capital Adjustment Account in the opening 1 April 2009 balance sheet.
- Portions of grants and contributions deferred previously recognised as income in 2009/10; these have been removed from the Comprehensive Income and Expenditure Statement in the comparative figures.
- Grants and contributions received in 2009/10 but not used. Previously no income was recognised in respect of these grants and contributions, which were included within the liabilities section of the balance sheet. Following the change in accounting policy these grants and contributions have been recognised in full, and transferred to the Capital Grants Unapplied Account within the reserves section of the balance sheet.

d. Other

Investment Properties – Gains or Losses Arising from Changes in Value

The Code requires gains or losses arising from a change in the fair value of investment properties to be recognised as a Surplus or Deficit on the Provision of Services. Previously, such gains or losses were reflected in an Investment Property Revaluation Reserve. However, under statutory regulations, gains or losses arising from a change in fair value credited or debited to Surplus or Deficit on the Provision of Services are not proper charges to the General Fund. Such amounts are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement. As a consequence of adopting the accounting policy required by the code, the negative balance on the Investment Property Revaluation Reserve has been transferred to the Capital Adjustment Account.

Cash and Cash Equivalents

The previous UK GAAP based Statement of Recommended Practice did not use the concept of cash equivalents. The Code requires local authorities to classify cash and cash equivalents in their opening IFRS Balance Sheets. In accordance with the City's accounting policy, money market funds repayable without penalty or notice of not more than 24 hours have been reclassified from short term investments to cash and cash equivalents.

3. **Accounting Standards That Have Been Issued but Not Yet Adopted: Heritage Assets FRS30**

The Code has introduced a change in accounting policy in relation to the treatment of heritage assets (Financial Reporting Standard 30). Although the change need not be adopted fully until the 2011/12 City Fund financial statements, disclosure of the estimated effect of the standard is required in these (2010/11) financial statements

The standard will require that a new class of asset, heritage assets, is disclosed separately on the face of the Balance Sheet in the 2011/12 financial statements. Heritage assets are those assets intended to be preserved in trust for future generations because of their cultural, environmental or historical associations.

The Code provides that where the cost or value of heritage assets cannot be obtained at a cost which is commensurate with the benefits to the users of the financial statements, such assets will not be recognised in the Balance Sheet. The City does not consider the expense of obtaining information on cost or values to be justified and will therefore recognise on the balance sheet only those heritage assets for which information on costs is readily available.

The carrying value of heritage assets currently held in the Balance Sheet as Community Assets (at cost) within Property, Plant and Equipment at 31 March 2011 is £9m. Of this total, one asset - the capital's only Roman Amphitheatre, accounts for £8.9m. The amphitheatre was discovered in Guildhall Yard during an archaeological dig taking place in preparation for a new building project. In 2002, the doors to the amphitheatre opened for the first time in nearly 2,000 years. The balance of the carrying value relates to a Roman Bath House and other roman remains, Prince Henry's Room in Fleet Street, and tapestries.

The City considers that the heritage assets held within the City Fund will have indeterminate lives and high residual values; hence the City does not consider it appropriate to charge depreciation for the assets. There will therefore be no change to the depreciation charged in the financial statements in relation to City Fund heritage assets.

4. **Critical Judgements in Applying Accounting Policies**

In applying the accounting policies set out in Note 1, authorities may have to make certain judgements about complex transactions or those involving uncertainty about future events. Apart from those involving estimations (see note 5), there are no critical judgements that management has made in the process of applying the City's accounting policies that will have a material effect on the amounts recognised in the financial statements.

5. **Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty**

The Statement of Accounts contains estimated figures that are based on assumptions made by the City about the future or that are otherwise uncertain. The estimates and associated assumptions are continually reviewed and are based on historical experience and other factors including expectations of future events that are considered to be reasonable under the circumstances. However, because balances cannot be determined with certainty actual results could be materially different from those estimates. Changes in accounting estimates may be necessary if there are changes in circumstances on which the estimate was based, or as a result of new information or more experience. The estimates and assumptions that have the most significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

Pension Benefits – Estimation of the net liability to pay pensions depends on a number of complex adjustments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the City with expert advice about the assumptions to be applied. The effect of changes in individual assumptions on the net pensions liability can be measured, but are complex and interact in a complex manner. For example the actuary determines the appropriate discount rate at the end of each year after taking account of the yield from a high quality bond of appropriate duration, a 0.1% increase in the discount rate assumption would result in a decrease in the Police Pension liability of £10.5m. Other key assumptions for pension obligations are based in part on current market conditions and demographic data. Additional information on pension schemes is given in notes 42 to46.

Property Valuations – The carrying values of property, plant and equipment and investment properties are primarily dependent on judgements of such variables as the state of the property market, location, asset lives, condition of the property, indices etc. Valuation is an inexact science with assessments provided by different surveyors rarely agreeing and with prices subsequently realised diverging from valuations. A reduction in estimated valuations would result in reductions to the Revaluation Reserve and/or a loss recorded as appropriate in the Comprehensive Income and Expenditure Statement. For example a 1% reduction in the value of investment properties would result in a £7.2m charge to "Financing and Investment Income and Expenditure" in the Comprehensive Income and Expenditure Statement. Conversely, an increase in value would result in increases to the Revaluation Reserve and/or reversals of previous negative revaluations to the Comprehensive Income and Expenditure Statement and/or gains being recorded as appropriate in the Comprehensive Income and Expenditure Statement.

However, the risk of material adjustments is mitigated by using the experience and knowledge of professional chartered surveyors, both in-house staff and external firms. In addition, tests are undertaken to ensure that variations between the valuations of different

surveyors, and between valuations and actual prices, are within reasonable tolerances. Additional information on property asset valuation is provided in note 12.

6. **Events after the Balance Sheet Date**

The Statement of Accounts was authorised for issue by the Chamberlain on 30 June 2011. Events after the balance sheet date and up to 30 June 2011 have been considered in respect of material impact on the financial statements. Events taking place after this date are not reflected in the financial statements or notes.

7. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to meet future capital and revenue expenditure.

2010/11	Usable Reserves					
	City Fund Balance £m	Housing Revenue Account £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Major Repairs Reserve £m	Movement in Unusable Reserves £m
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	(17.7)	(2.4)	0.0	0.0	0.0	20.1
Revaluation losses on Property, Plant and Equipment	(17.3)	(23.9)	0.0	0.0	0.0	41.2
Movements in the market value of Investment Properties	26.5	0.0	0.0	0.0	0.0	(26.5)
Amortisation of intangible assets	(0.2)	0.0	0.0	0.0	0.0	0.2
Capital grants, contributions and donations applied	12.6	0.0	0.0	0.0	0.0	(12.6)
Revenue expenditure funded from capital under statute	(7.0)	0.0	0.0	0.0	0.0	7.0
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(8.5)	0.0	0.0	0.0	0.0	8.5
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Museum of London rent	(0.4)	0.0	0.0	0.0	0.0	0.4
Capital expenditure charged against the City Fund and HRA balances	1.4	0.0	0.0	0.0	0.0	(1.4)
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	0.4	0.0	0.0	(0.4)	0.0	0.0
Application of grants to capital financing transferred to the Capital Adjustment Account	0.0	0.0	0.0	0.7	0.0	(0.7)

2010/11

	Usable Reserves					
	City Fund Balance £m	Housing Revenue Account £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Major Repairs Reserve £m	Movement in Unusable Reserves £m
Adjustments primarily involving the Capital Receipts Reserve						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	20.7	0.0	(20.7)	0.0	0.0	0.0
Use of the Capital Receipts Reserve to finance new capital expenditure	0.0	0.0	29.4	0.0	0.0	(29.4)
Adjustments primarily involving the Major Repairs Reserve:						
Reversal of Major Repairs Allowance credited to the HRA	0.0	1.9	0.0	0.0	(1.9)	0.0
Use of the Major Repairs Reserve to finance new capital expenditure	0.0	0.0	0.0	0.0	2.0	(2.0)
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	16.5	0.0	0.0	0.0	0.0	(16.5)
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	0.2	0.0	0.0	0.0	0.0	(0.2)
Adjustments primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(0.4)	0.0	0.0	0.0	0.0	0.4
Other Adjustments	(0.1)	0.1	0.0	0.0	0.0	0.0
Total Adjustments	26.7	(24.3)	8.7	0.3	0.1	(11.5)

2009/10	Usable Reserves					
	City Fund Balance £m	Housing Revenue Account £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Major Repairs Reserve £m	Movement in Unusable Reserves £m
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	(20.4)	(1.5)	0.0	0.0	0.0	21.9
Revaluation losses on Property, Plant and Equipment	(0.9)	0.0	0.0	0.0	0.0	0.9
Movements in the market value of Investment Properties	77.4	0.0	0.0	0.0	0.0	(77.4)
Amortisation of intangible assets	(0.1)	0.0	0.0	0.0	0.0	0.1
Capital grants and contributions applied	12.9	0.0	0.0	0.0	0.0	(12.9)
Revenue expenditure funded from capital under statute	(7.5)	0.0	0.0	0.0	0.0	7.5
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(14.0)	0.0	0.0	0.0	0.0	14.0
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Museum of London rent	(0.4)	0.0	0.0	0.0	0.0	0.4
Capital expenditure charged against the City Fund and HRA balances	0.4	0.0	0.0	0.0	0.0	(0.4)
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	0.7	0.0	0.0	(0.7)	0.0	0.0

2009/10	Usable Reserves					
	City Fund Balance £m	Housing Revenue Account £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Major Repairs Reserve £m	Movement in Unusable Reserves £m
Adjustments primarily involving the Capital Receipts Reserve						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	14.1	0.0	(14.1)	0.0	0.0	0.0
Use of the Capital Receipts Reserve to finance new capital expenditure	0.0	0.0	63.2	0.0	0.0	(63.2)
Adjustments primarily involving the Major Repairs Reserve:						
Reversal of Major Repairs Allowance credited to the HRA	0.0	1.9	0.0	0.0	(1.9)	0.0
Use of the Major Repairs Reserve to finance new capital expenditure	0.0	0.0	0.0	0.0	0.8	(0.8)
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(23.0)	0.0	0.0	0.0	0.0	23.0
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	0.1	0.0	0.0	0.0	0.0	(0.1)
Adjustments primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0.2	0.0	0.0	0.0	0.0	(0.2)
Other Adjustments	(0.2)	0.2	(0.1)	0.0	0.0	0.1
Total Adjustments	39.3	0.6	49.0	(0.7)	(1.1)	(87.1)

8. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the City Fund balance in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet City Fund expenditure in 2010/11.

	Notes	Balance at 1 April 2009	Transfers Out 2009/10	Transfers In 2009/10	Balance at 31 March 2010	Transfers Out 2010/11	Transfers In 2010/11	Balance at 31 March 2011
		£m	£m	£m	£m	£m	£m	£m
Resilience Reserve	(i)	(46.35)	0.00	0.00	(46.35)	0.00	0.00	(46.35)
Highway Improvements	(ii)	(13.99)	2.29	(2.30)	(14.00)	3.87	(3.24)	(13.37)
Police Future Expenditure	(iii)	(7.67)	0.00	(6.15)	(13.82)	0.00	(0.34)	(14.16)
Crossrail	(iv)	0.00	0.00	(3.70)	(3.70)	0.00	(3.50)	(7.20)
Judges Pensions	(v)	(1.00)	0.00	(0.20)	(1.20)	0.00	(0.20)	(1.40)
Service Projects	(vi)	(1.01)	0.05	(0.34)	(1.30)	0.20	(2.46)	(3.56)
Renewals and Repairs:	(vii)	(0.57)	0.04	0.00	(0.53)	0.01	0.00	(0.52)
Landfill Allowances	(viii)	(0.30)	0.00	(0.13)	(0.43)	0.11	0.00	(0.32)
Spitalfields Market	(ix)	(0.22)	0.06	0.00	(0.16)	0.01	0.00	(0.15)
Energy Savings Scheme	(x)	(0.13)	0.13	(0.15)	(0.15)	0.12	(0.02)	(0.05)
School's Reserve	(xi)	(0.04)	0.00	(0.01)	(0.05)	0.00	(0.05)	(0.10)
E-Government	(xii)	(0.01)	0.01	0.00	0.00	0.00	0.00	0.00
Total		**(71.29)**	**2.58**	**(12.98)**	**(81.69)**	**4.32**	**(9.81)**	**(87.18)**

(i) Resilience Reserve - To meet costs which may arise from damage by terrorism or other cause to uninsured infrastructure assets such as highways, and expenses which may be incurred in order to assist businesses and others to resume their normal operation.

(ii) Highway Improvements - Created from on-street car parking surpluses to finance future highways related expenditure and projects as provided by section 55 of the Road Traffic Regulation Act 1984, as amended by the Road Traffic Act 1991.

(iii) Police Future Expenditure - Revenue expenditure for the City Police service is cash limited. Underspendings against this limit may be carried forward as a reserve to the following financial year and overspendings are required to be met from this reserve. The City Police have £14.2m set aside to finance revenue expenditure in subsequent years.

(iv) Crossrail - Funds set aside to contribute towards the City's £200m commitment towards the Crossrail project, currently anticipated in 2017.

(v) Judges Pensions - Sums set aside to assist with the City of London's share of liabilities.

(vi) Service Projects - A number of reserves for service specific projects and activities have been aggregated under this generic heading.

(vii) Renewals and Repairs - These reserves comprise:

6-8 Bonhill Street – Sums obtained on the surrender of the headlease and set aside to fund cyclical maintenance and repair works to the property and void costs.

New Spitalfields Market Building Defects - Sums obtained from the developer of the new building to fund repairs to the Market, particularly the concrete slab.

(viii) Landfill Allowances – Income arising from the sale of Landfill Allowances is being set aside to fund the future purchase of Landfill Allowances and to meet increases in the cost of waste disposal due to changes in the method of disposal in order to achieve landfill targets.

(ix) Spitalfields Market Reserve - To help finance City of London expenditure on the Market.

(x) Energy Saving Scheme - Sums set aside for a self sustaining fund for energy savings projects in the various City Fund Properties.

(xi) School's Reserve - The cumulative balance from the local management budget delegated to the Sir John Cass's Foundation Primary School.

(xii) E-Government - A reserve to provide funding for E-Government initiatives.

9. Other Operating Expenditure

	2010/11 Net Expenditure/ (Income) £m	2009/10 Net Expenditure/ (Income) £m
Gain on Disposal of Fixed Assets	(12.2)	(0.1)
Inner and Middle Temple Precepts	0.3	0.3
Local levies	0.1	0.1
Total	**(11.8)**	**0.3**

10. Financing and Investment Income and Expenditure

	2010/11 Net Expenditure/ (Income) £m	2009/10 Net Expenditure/ (Income) £m
Investment Properties		
Operational	(25.8)	(27.3)
Gain on revaluation	(26.5)	(77.4)
Interest receivable and similar income	(9.2)	(9.4)
Pension Interest Cost	35.7	29.1
Contribution from Trading Services	(0.7)	(0.6)
Total	**(26.5)**	**(85.6)**

11. Taxation and Non-Specific Grant Income

	2010/11 Income £m	2009/10 Income £m
Council Tax	(5.6)	(5.4)
National Non Domestic Rates Distribution	(72.4)	(66.7)
City Non Domestic Rates Premium	(6.4)	(5.0)
City Offset	(10.0)	(9.8)
Non Ringfenced Government Grants (Revenue)		
Revenue Support Grant	(10.5)	(15.4)
Police Grant	(21.8)	(21.0)
Area Based Grant	(1.5)	(0.9)
Local Area Agreement Reward Grant	(0.7)	0.0
Housing and Planning Delivery Grant	0.0	(0.3)
Capital Grants, Contributions and Donations	(9.4)	(7.6)
Total	**(138.3)**	**(132.1)**

12. Property, Plant and Equipment

Movements on Balances	Council Dwellings £m	Other Land and Buildings £m	Leasehold Improvements £m	Vehicles, Plant and Equipment £m	Infra-structure £m	Community Assets £m	Work in Progress £m	Total £m
Cost or valuation								
At 1 April 2010	219.2	340.1	59.0	25.9	33.5	9.4	0.0	687.1
Additions	2.8	1.2	0.2	2.8	7.5	0.1	0.8	15.4
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(29.7)	28.9	0.0	0.0	0.0	0.0	0.0	(0.8)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(26.1)	(21.0)	0.0	0.0	0.0	0.0	0.0	(47.1)
Derecognition - disposals	0.0	(0.3)	0.0	0.0	0.0	0.0	0.0	(0.3)
At 31 March 2011	**166.2**	**348.9**	**59.2**	**28.7**	**41.0**	**9.5**	**0.8**	**654.3**
Accumulated Depreciation and Impairment								
49 At 1 April 2010	0.0	(12.0)	(3.0)	(12.5)	(9.6)	0.0	0.0	(37.1)
Depreciation Charge	(2.2)	(6.8)	(2.5)	(4.3)	(3.8)	0.0	0.0	(19.6)
Depreciation written out to the Revaluation Reserve	1.1	8.5	0.0	0.0	0.0	0.0	0.0	9.6
Depreciation written out to the Surplus/Deficit on the Provision of Services	1.1	4.9	0.0	0.1	0.0	0.0	0.0	6.1
Impairment losses/(reversals) recognised in the Revaluation Reserve	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
At 31 March 2011	**0.0**	**(5.4)**	**(5.5)**	**(16.7)**	**(13.4)**	**0.0**	**0.0**	**(41.0)**
Net Book Value								
At 31 March 2010	**219.2**	**328.1**	**56.0**	**13.4**	**23.9**	**9.4**	**0.0**	**650.0**
At 31 March 2011	**166.2**	**343.5**	**53.7**	**12.0**	**27.6**	**9.5**	**0.8**	**613.3**

Movements on Balances	Council Dwellings	Other Land and Buildings	Leasehold Improvements	Vehicles, Plant and Equipment	Infra-structure	Community Assets	Total
	£m	£m	£m	£m	£m	£m	£m
Cost or valuation							
At 1 April 2009	209.0	345.6	54.6	22.4	29.7	9.2	**670.5**
Additions	1.0	(3.4)	4.4	3.7	3.8	0.2	**9.7**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	9.4	2.2	0.0	0.0	0.0	0.0	**11.6**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0.1	(0.6)	0.0	0.0	0.0	0.0	**(0.5)**
Derecognition - disposals	(0.3)	(1.9)	0.0	(0.2)	0.0	0.0	**(2.4)**
Derecognition - other	0.0	(1.8)	0.0	0.0	0.0	0.0	**(1.8)**
At 31 March 2010	**219.2**	**340.1**	**59.0**	**25.9**	**33.5**	**9.4**	**687.1**
Accumulated Depreciation and Impairment							
At 1 April 2009	0.0	(8.9)	(0.7)	(8.1)	(6.0)	0.0	**(23.7)**
Depreciation Charge	(1.2)	(4.7)	(2.3)	(4.6)	(3.6)	0.0	**(16.4)**
Depreciation written out to the Revaluation Reserve	1.1	1.6	0.0	0.0	0.0	0.0	**2.7**
Depreciation written out to the Surplus/Deficit on the Provision of Services	0.1	0.0	0.0	0.2	0.0	0.0	**0.3**
At 31 March 2010	**0.0**	**(12.0)**	**(3.0)**	**(12.5)**	**(9.6)**	**0.0**	**(37.1)**
Net Book Value							
At 1 April 2009	**209.0**	**336.7**	**53.9**	**14.3**	**23.7**	**9.2**	**646.8**
At 31 March 2010	**219.2**	**328.1**	**56.0**	**13.4**	**23.9**	**9.4**	**650.0**

Depreciation

The following useful lives and depreciation rates have generally been used in the calculation of depreciation

General operational buildings	50 years
Council Dwellings	125 years
Leasehold improvements	10-30 years
Certain 'listed' operational buildings	75-125 years
Infrastructure	10 years
Heavy vehicles and plant	7 years
Equipment	5–12 years
Cars and light vans	5 years

Where there is a material impact on depreciation and/or the carrying value, components are treated as separate assets and depreciated over their own useful economic lives. Indicative economic lives of typical asset components include:

Internal fit-out	10-25 years
Plant and Machinery	15-25 years

Capital Commitments

The City Fund has agreed that a total of £200m will be provided from City Fund towards the costs of constructing Crossrail with the payment of this amount being dependent on the achievement of a number of conditions. At this stage it is anticipated that the contribution will be made in 2017. The financing strategy for the contribution includes the allocation of reserves for investment in property and setting aside future capital receipts. These capital sums, together with the associated total returns, should allow the City to achieve the required funding.

Revaluations

Properties regarded as operational have been valued at their Open Market Value in Existing Use, or where this could not be assessed because there was no market for the subject asset, the Depreciated Replacement Cost. In some cases, specialist properties have required specialist valuation assumptions or alternative use valuations have been carried out.

Properties regarded as non-operational have been valued on the basis of Market Value.

Vehicles, plant and equipment are shown at depreciated cost, as a proxy for value.

Community assets in existence at 1 April 1994 are each shown at a notional £1 to which subsequent additions have been added at cost.

Infrastructure in existence at 1 April 1994 was valued at nil since there was no loan debt outstanding on this category of asset. Subsequent outlay has been added at cost.

The following have been revalued at 31 March 2011 in accordance with the Rolling Five Year Programme of Revaluation:

- Barbican Estate residential properties and car bays
- Housing Dwellings and commercial properties
- Central Criminal Court, Walbrook Wharf Depot and Offices
- Barbican Centre, including the Barbican lending library
- Barbican YMCA
- Golden Lane Recreation Centre
- Calcutta House

For assets not revalued in 2010-11 as part of the Rolling Five Year Programme of Revaluation the City is not aware of any material change in value and therefore the valuations have not been updated.

The current asset values used in the accounts for the Barbican Centre, Central Criminal Court, Walbrook Wharf (depot and offices), Golden Lane Recreation Centre, Woodredon and Warlies Park, Cemetery and Crematorium and most of the investment properties are based on assessments by external valuers. The firms of chartered surveyors who have prepared valuations for the City of London are BNP Paribas Real Estate, Jones Lang Lasalle Ltd, Montagu Evans, Gerald Eve and Bidwells.

All other asset values have been prepared by the City of London Corporation's City Surveyor who is a Chartered Surveyor.

13. **Investment Properties**

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

	2010/11	**2009/10**
	£m	**£m**
Income from investment properties	(38.0)	(37.8)
Operating expenses arising from investment property	12.1	11.3
Net gain	**(25.9)**	**(26.5)**

There are no restrictions on the City's ability to realise the value inherent in its investment property or on the City's right to the remittance of income and the proceeds of disposal. The City has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

	2010/11	2009/10
	£m	£m
Balance at start of the year	676.4	555.8
Additions:		
Purchases	21.7	52.0
Construction	0.0	0.0
Subsequent expenditure	1.5	3.0
Disposals	(8.2)	(11.8)
Revaluations:		
Net gains from fair value adjustments	26.5	77.4
Balance at end of the year	**717.9**	**676.4**

14. Intangible Assets

Long Term Intangible Assets

Intangible long term assets comprise computer software licences, which are capitalised at cost. They are not revalued and are amortised over their useful life.

Amortisation is provided on all intangible long term assets, calculated by allocation of the Balance Sheet value of the asset, less any residual value, to the periods expected to benefit from its use on a straight line basis over the following indicative periods.

Computer software	3 – 7 years

Amortisation charges in respect of the value of intangible assets at the start of the year are charged to service revenue accounts.

The movement on Intangible Asset balances during the year is as follows:

	2010/11	2009/10
	£m	£m
Balance at start of year:		
Gross carrying amounts	1.2	0.3
Accumulated amortisation	(0.2)	(0.1)
Net carrying amount at start of year	1.0	0.2
Additions	0.0	0.9
Amortisation for the period	(0.2)	(0.1)
Net carrying amount at end of year	0.8	1.0
Comprising		
Gross carrying amounts	1.2	1.2
Accumulated amortisation	(0.4)	(0.2)
	0.8	1.0

Current Intangible Assets

Intangible current assets, which are represented by unused landfill allowances, are valued at the weighted average value at which allowances have traded during the year.

15. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown, in the table below, together with the resources that have been used to finance it. All capital expenditure is financed from capital receipts, grants and contributions or direct financing from revenue balances and as at 31 March 2011, the City has a negative capital financing requirement, i.e. it has no underlying need to borrow to finance capital expenditure and no plans to borrow to finance future expenditure.

	2010/11	2009/10
	£m	£m
Capital Investment		
Property, Plant and Equipment	15.4	13.9
Investment Properties	23.2	55.0
Intangible Assets	0.0	0.9
Revenue Expenditure Funded from Capital Under Statute	7.0	7.5
	45.6	**77.3**
Sources of Finance		
Capital Receipts	29.4	63.2
Government Grants and other contributions	12.8	13.0
Direct revenue contributions	3.4	1.1
	45.6	**77.3**

16. Financial Instruments

The financial instruments recognised in the City Fund financial statements include trade debtors and creditors, bank deposits, loans and investments.

Categories of Financial Instruments

The financial instruments disclosed in the Balance Sheet are made up of the following categories:

	Long Term			Current		
	31 March 2011	31 March 2010	31 March 2009	31 March 2011	31 March 2010	31 March 2009
	£m	£m		£m	£m	£m
Investments						
Loans and receivables	137.3	171.9	23.8	96.1	67.9	308.9
Total Investments	137.3	171.9	23.8	96.1	67.9	308.9
Debtors						
Loans and receivables	13.2	13.9	14.9	19.8	16.9	19.8
Total Debtors	13.2	13.9	14.9	19.8	16.9	19.8
Creditors						
Financial liabilities	0.0	0.0	0.0	47.4	44.5	45.3
Total Creditors	0.0	0.0	0.0	47.4	44.5	45.3

Investments

The City's investments comprise cash that is not required for day to day purposes invested in deposits of varying fixed lengths and fixed interest rates in the London money markets.

Income, Expense, Gains and Losses

The gains and losses recognised in the Income and Expenditure account in relation to financial instruments are made up as follows:

	2010/11 Financial Assets	2009/10 Financial Assets	2008/09 Financial Assets
	Loans and Receivables	Loans and Receivables	Loans and Receivables
	£m	£m	£m
Impairment (gains)/losses	(0.9)	0.5	0.5
Total Expense in Surplus or Deficit on the Provision of Services	**(0.9)**	**0.5**	**0.5**
Interest Income	(9.2)	(9.4)	(9.4)
Total Income in Surplus or Deficit on the Provision of Services	**(9.2)**	**(9.4)**	**(9.4)**
Net gain for year	**(10.1)**	**(8.9)**	**(8.9)**

Fair Value of Assets and Liabilities

Financial liabilities and financial assets represented by loans and receivables and long term debtors are carried in the Balance Sheet at amortised cost. The fair value of trade and other receivables is taken to be the invoiced or billed amount. Short term debtors and creditors are carried at cost as this is a fair approximation of their value. The City's investments in the London money markets are predominately fixed rate and fixed length deposits. The carrying amount of the investments is assumed to be a reasonable approximation of fair value taking into account the period to maturity.

	31 March 2011		31 March 2010		31 March 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£m	£m	£m	£m	£m	£m
Loans and receivables	233.4	233.4	239.8	239.8	332.7	332.7

55

17. **Nature and Extent of Risks arising from Financial Instruments**

The City Of London Corporation's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due
- Liquidity risk – the possibility that the City might not have enough funds available to meet its commitments to make payments
- Market risk – the possibility that financial loss might arise as a result of changes in such measures as interest rates and stock market movements

The City of London Corporation has adopted CIPFA's Treasury Management in the Public Services: Code of Practice and sets treasury management indicators to control key financial instrument risks in accordance with CIPFA's Prudential Code. The City's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the Court of Common Council in the annual treasury management strategy statement.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the City's customers. Deposits are not made with banks and financial institutions unless they are rated independently with a minimum score of Long term A, Short term F1 Individual B, Support 3. The City Corporation also invests in Money Market Funds, which are subject to a minimum credit rating of AAA. The lending list is reviewed on a regular basis using advice from credit rating agencies and in-house judgements based on credit default swap rates.

The money markets continued to be volatile in 2010/11 and the creditworthiness of the counterparties on the City Corporation's lending list was carefully monitored. Security of the investments was paramount but with liquidity and yield also being considerations. By the end of the year the City effectively only had six potential borrowers in the form of banks and building societies and it was necessary to maintain high levels of individual maximum lending limits to accommodate lending requirements. The lending limit attributable to Lloyds TSB Bank, Santander UK, HSBC and Barclays Banks was maintained at maximum lending limits of £100m each, and the government supported Royal Bank of Scotland Group at the same overall limit. The lending limit for the Nationwide Building Society was maintained at £120m. The maximum duration for such loans was fixed at three years. The list also contains four foreign banks with individual limits of £25m, National Australia Bank, Australia and New Zealand Banking Group, NV Bank Nederlandse Gemeenter and Svenska Handelsbanken, but these institutions do not normally operate in the City Corporation's marketplace. The list also includes four top rated Money Market Funds; Prime Rate Liquidity Fund, Henderson Liquid Assets Fund, Ignis Asset Management Liquidity Funds and Payden Sterling Reserve Fund, which effectively offer daily liquidity for deposits.

No credit limits were exceeded during the reporting period and although one longer term loan of £2.2m is still outstanding with an institution that no longer meets the City's minimum lending criteria, full repayment on the due date of the deposit is expected.

The City does not generally allow credit for customers. Therefore the potential maximum exposure to credit risk is with customers for which prudent provision for bad debts has been included within the accounts based on the length of time past due and progress on recovery action. The past due but not impaired amount is summarised below.

	Amount as at 31 March 2011	Amount as at 31 March 2010	Amount as at 31 March 2009
	£m	£m	£m
Less than three months	7.8	9.0	7.3
Three to six months	0.7	0.8	0.7
Six months to one year	0.4	0.5	0.8
More than one year	0.1	0.0	0.0
Total	**9.0**	**10.3**	**8.8**

Liquidity risk

As the authority has ready access to borrowings from the Public Works Loans Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. At present, the City has no borrowing exposure and has no plans to borrow to finance future capital expenditure. All trade creditors and other payables are due to be paid in less than one year.

Market risk

Interest rate risk

The authority is exposed to significant risk in terms of its exposure to interest rate movements on its investments. Movements in interest rates have a complex impact on the authority. For instance, a rise in interest rates would have the following effects:

investments at variable rates – the interest income credited to the Income and Expenditure Account will rise

investments at fixed rates – the fair value of the assets will fall

The reduced interest rates for 2010/11 have had a severe adverse impact on the income earnings of the City Fund and HRA, which is anticipated to continue in 2011/12. The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year.

Investments are not carried at fair value so that nominal gains and losses would not impact on the surplus or deficit on the provision of services. According to this assessment strategy, if interest rates had been 1% higher with all other variables held constant, the financial effect at 31 March would be:

	2010/11	2009/10
	£m	£m
Increase in interest receivable on money market deposits		
City Fund	3.6	3.2
HRA	0.2	0.2
Total	**3.8**	**3.4**

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Price risk

The authority does not invest in equity shares within the City Fund.

Foreign exchange risk

The authority has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

18. Debtors and Payments in Advance falling due within a year

	31 March 2011		31 March 2010	31 March 2009
	£m	£m	£m	£m
Central Government Bodies		5.6	5.6	6.5
Rents	7.8		6.3	5.7
less impairment allowance for bad and doubtful debts	(3.2)		(3.9)	(4.4)
		4.6	2.4	1.3
Sundry	16.7		16.2	20.1
less impairment allowance for bad and doubtful debts	(1.5)		(1.7)	(1.6)
		15.2	14.5	18.5
Season Ticket and Loans to Employees		0.7	0.7	0.8
Prepayments		7.7	6.9	6.9
		33.8	30.1	34.0

The Code specifies that, except where information is not material, debtors should be analysed between the following categories; central government bodies, other local authorities, NHS bodies, public corporations and trading funds, and bodies external to general government (i.e. all other bodies). With the exception of central government bodies there are no material amounts due from other general government bodies.

19. Long Term Debtors

	31 March 2011	31 March 2010	31 March 2009
	£m	£m	£m
Loans to Museum of London (repayable by 2032)	2.8	3.0	3.1
Museum of London Lease	10.1	10.5	11.4
Museum in Docklands Loan	0.3	0.4	0.4
	13.2	**13.9**	**14.9**

20. Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

	31 March 2011	31 March 2010	31 March 2009
	£m	£m	£m
Cash at bank	10.5	3.4	9.4
Money Market Funds	94.3	47.7	0.0
Reserve Accounts	0.2	17.5	12.7
	105.0	**68.6**	**22.1**

21. Creditors and Receipts in Advance

	31 March 2011	31 March 2010	31 March 2009
	£m	£m	£m
Central Government Bodies	(33.1)	(9.1)	(18.3)
Greater London Authority - Business Rates Supplement	(2.7)	0.0	0.0
Deposits	(9.0)	(9.0)	(8.3)
Sundry	(31.8)	(30.1)	(31.4)
Receipts in advance	(15.6)	(14.4)	(13.9)
Spitalfields Market Tenants Fund	(0.9)	(0.9)	(1.0)
	(93.1)	(63.5)	(72.9)

The Code specifies that, except where information is not material, creditors should be analysed between the following categories; central government bodies, other local authorities, NHS bodies, public corporations and trading funds, and bodies external to general government (i.e. all other bodies). With the exception of central government bodies there are no material amounts due from other general government bodies. Within the creditors for central government bodies, £31.4m relates to national non- domestic rates (2009/10: £8.5m, 2008/09: £16.8m).

22. Contingent Liabilities

The main contractor on a major capital project has submitted claims for time extensions and consequential additional costs. These are being assessed by the Contract Administrator and the Quantity Surveyor; at this stage a best estimate of City Fund's share of the contract cost has been provided for in the accounts but it is possible that this cost could increase. The sums concerned have not been disclosed as to do so could prejudice seriously the City of London Corporation's position.

23. Usable Reserves

Movements in the City's usable reserves are detailed in the Movement in Reserves Statement and Notes 7 and 8.

24. Unusable Reserves

	Note	31 March 2011	31 March 2010	31 March 2009
		£m	£m	£m
Revaluation Reserve	A	(58.5)	(50.2)	(37.1)
Capital Adjustment Account	B	(1,286.7)	(1,290.9)	(1,179.9)
Pensions Reserve	C	470.7	649.6	437.9
Collection Fund Adjustment Account	D	(0.6)	(0.4)	(0.3)
Accumulated Absences Account	E	2.7	2.3	2.4
Total Unusable Reserves		**(872.4)**	**(689.6)**	**(777.0)**

A. <u>Revaluation Reserve</u>

The Revaluation Reserve contains the gains arising from increases in the value of Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account (see note B).

	2010/11		2009/10
	£m	£m	£m
Balance at 1 April		(50.2)	(37.1)
Upward revaluation of assets	(37.5)		(19.8)
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	28.7		5.5
Surplus on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		(8.8)	(14.3)
Difference between fair value depreciation and historical cost depreciation	0.4		0.3
Accumulated losses on assets sold or scrapped	0.1		0.9
Amount written off to the Capital Adjustment Account		0.5	1.2
Balance at 31 March		**(58.5)**	**(50.2)**

B. Capital Adjustment Account

The Capital Adjustment Account includes entries for the financing of capital expenditure and other capital transactions. The account contains the amount of capital expenditure financed from revenue, capital receipts and other sources. It is reduced by the amounts provided for depreciation and for the write-down of revenue expenditure funded from capital under statute and adjustments for disposals of fixed assets.

The Account contains accumulated gains and losses on Investment Properties.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

	2010/11		2009/10
	£m	£m	£m
Balance at 1 April		(1,290.9)	(1,179.9)
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:			
Charges for depreciation and impairment of non-current assets	19.8		14.2
Revaluation losses on Property, Plant and Equipment	41.4		9.4
Amortisation of intangible assets	0.2		0.1
Revenue expenditure funded from capital under statute	7.0		7.5
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Account	8.5		13.1
	76.9		44.3
Adjusting amounts written out of the Revaluation Reserve	(0.5)		(0.3)
Net written out amount of the cost of non-current assets consumed in the year		76.4	44.0
Capital financing applied in the year:			
Use of the Capital Receipts Reserve to finance new capital expenditure	(29.4)		(63.2)
Use of the Major Repairs Reserve to finance new capital expenditure	(2.0)		(0.8)
Capital grants,contributions and donations credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(12.6)		(12.9)
Application of grants to capital financing from the Capital Grants Unapplied Account	(0.8)		0.0
Statutory provision for the financing of capital investment charged against the City Fund and HRA balances	0.0		0.0
Capital expenditure charged against the City Fund and HRA balances	(1.4)		(0.4)
		(46.2)	(77.3)
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		(26.5)	(78.2)
Museum of London finance lease and loan principle		0.5	0.5
Balance at 31 March		**(1,286.7)**	**(1,290.9)**

C. Pension Reserve

The negative pension reserve matches the estimated liability on the Police and Judges Pension Schemes as determined by independent actuaries using the projected unit method and in accordance with IAS19 (see notes 44 and 45).

	2010/11	2009/10
	£m	£m
Balance at 1 April	649.6	437.9
Actuarial (gains) or losses on pension assets and liabilities	(162.5)	188.8
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	1.4	37.5
Employer's pension contributions less direct payments to pensioners payable in the year	(17.8)	(14.6)
Balance at 31 March	**470.7**	**649.6**

D. Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the City Fund from the Collection Fund.

	2010/11	2009/10
	£m	£m
Balance at 1 April	(0.4)	(0.3)
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(0.2)	(0.1)
Balance at 31 March	**(0.6)**	**(0.4)**

E. Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the City Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the City Fund Balance is neutralised by transfers to or from the Account.

	2010/11		2009/10
	£m	£m	£m
Balance at 1 April		2.3	2.4
Settlement or cancellation of accrual made at the end of the preceding year	(2.3)		(2.4)
Amounts accrued at the end of the current year	2.7		2.3
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from the remuneration chargeable in the year in accordance with statutory requirements		0.4	(0.1)
Balance at 31 March		2.7	**2.3**

25. Cash Flow Statement – Interest Received

The cash flows for operating activities includes the following item:

	2010/11	2009/10
	£m	£m
Interest received	(9.2)	(9.4)

26. Cash Flow Statement – Investing Activities

	2010/11	2009/10
	£m	£m
Purchase of property, plant and equipment, investment property and intangible assets	37.8	57.9
Movement in short-term and long-term investments	(6.4)	(93.0)
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(20.7)	(1.1)
Other receipts from investing activities	(11.8)	(10.9)
Net cash inflows from investing activities	**(1.1)**	**(47.1)**

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27. **Cash Flow Statement – Financing Activities**

	2010/11 £m	2009/10 £m
Difference between cash collected from NNDR taxpayers and the amount paid to the Government	(23.2)	8.6
Difference between cash collected from Business Rate Supplement taxpayers and the amount paid to the Greater London Authority	(2.7)	0.0
Net cash inflows from financing activities	**(25.9)**	**8.6**

28. **Analyses used for Resource Allocation Decisions**

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the *Best Value Accounting Code of Practice.* However, in making decisions about resource allocation the City's Policy and Resources Committee considers expenditure analysed across Service Committees amongst other factors. These analyses are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- the cost of retirement benefits is based on cash flows (payments of employer's pensions contributions) rather than the current service cost of benefits accrued in the year
- notional interest charges, reflecting the cost to the City of having resources tied up in fixed assets that could otherwise have been invested or applied to the provision of another service, are included in costs reported to Service Committees but excluded from the Comprehensive Income and Expenditure Statement
- a number of other adjustments, such as the reversal of depreciation and impairment charges to the Capital Adjustment Account, capital expenditure funded from revenue and transfers to or from reserves, are included in budgets reported to Committees. These items are excluded from the Comprehensive Income and Expenditure Statement and included in the Movement in Reserves Statement.

The income and expenditure of the City's Committees are as follows:

NOTES TO THE CITY FUND FINANCIAL STATEMENTS

Committee Income and Expenditure 2010/11

	Barbican Centre	Barbican Residential	City Lands & Bridge House Estates	Community & Children's Services	Finance	Libraries, Archives & Guildhall Art Gallery	Licensing	Markets	Open Spaces	Planning & Transportation	Police	Policy & Resources	Port Health & Environmental Services	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Fees, charges & other service income	(13.9)	(11.8)	(39.2)	(14.6)	(1.1)	(1.7)	(0.5)	(5.2)	(0.3)	(17.6)	(2.0)	(6.5)	(14.8)	(129.2)
Interest & investment income	0.0	0.0	0.0	(0.1)	(8.8)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(8.9)
Government grants and contributions	(1.7)	(0.1)	(5.3)	(12.4)	(5.9)	(0.6)	0.0	(0.1)	(0.1)	(3.9)	(34.3)	(1.1)	(0.3)	(65.8)
Transfers from reserves	0.0	0.0	(0.1)	(1.3)	(1.3)	0.0	0.0	0.0	0.0	(2.2)	0.0	0.0	(0.2)	(5.1)
Capital contras	0.0	0.0	0.0	(26.3)	(34.8)	0.0	0.0	0.0	0.0	0.0	(3.0)	0.0	0.0	(64.1)
City funding for refcus1	0.0	0.0	0.0	0.0	(3.3)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(3.3)
Total Income	(15.6)	(11.9)	(44.6)	(54.7)	(55.2)	(2.3)	(0.5)	(5.3)	(0.4)	(23.7)	(39.3)	(7.6)	(15.3)	(276.4)
Employee expenses	14.3	3.4	3.4	12.0	0.6	7.8	0.3	1.2	0.9	8.4	72.4	5.4	12.4	142.5
Other service expenses	26.5	6.7	16.1	24.2	19.7	7.0	0.3	2.9	0.9	19.3	29.6	7.2	17.9	178.3
Transfers to reserves	0.0	0.0	0.9	2.4	3.9	0.4	0.0	0.0	0.0	3.2	0.3	0.3	0.2	11.6
Capital Charges														
Depreciation, amortisation and impairment	4.6	0.0	7.3	27.9	0.8	2.5	0.0	0.5	0.0	4.6	3.0	0.3	10.1	61.6
Notional interest charges	0.0	1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.5	2.5
Revenue contributions to capital expenditure	0.0	0.0	0.0	0.0	1.3	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	1.4
Internal Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.1
Interest Payments	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Precepts & Levies	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4
	45.4	12.0	27.7	66.6	26.7	17.7	0.6	4.6	1.8	35.6	105.5	13.2	41.1	398.5
Net Expenditure/(Income)	**29.8**	**0.1**	**(16.9)**	**11.9**	**(28.5)**	**15.4**	**0.1**	**(0.7)**	**1.4**	**11.9**	**66.2**	**5.6**	**25.8**	**122.1**

1. Revenue expenditure funded from capital under statute

Committee Income and Expenditure 2009/10

	Barbican Centre	Barbican Residential	City Lands & Bridge House Estates	Community & Children's Services	Finance	Libraries, Archives & Guildhall Art Gallery	Licensing	Markets	Open Spaces	Planning & Transportation	Police	Policy & Resources	Port Health & Environmental Services	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Fees, charges & other service income	(14.6)	(11.4)	(44.3)	(14.8)	(2.4)	(1.7)	(0.5)	(5.2)	(0.5)	(16.1)	(2.0)	(6.3)	(15.0)	(134.8)
Interest & investment income	0.0	0.0	(0.6)	(0.3)	(8.5)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(9.4)
Government grants and contributions	(1.5)	0.0	0.0	(16.0)	(3.7)	(0.2)	0.0	(0.2)	0.0	(4.9)	(37.6)	(1.2)	(0.6)	(65.9)
Transfers from reserves	0.0	0.0	0.0	(1.4)	(0.3)	0.0	0.0	0.0	0.0	(1.7)	0.0	0.0	(0.1)	(3.5)
Capital contras	0.0	0.0	0.0	(8.3)	(34.9)	0.0	0.0	0.0	0.0	0.0	(4.1)	0.0	0.0	(47.3)
City funding for refcus	0.0	0.0	0.0	0.0	(1.5)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(1.5)
Total Income	(16.1)	(11.4)	(44.9)	(40.8)	(51.3)	(1.9)	(0.5)	(5.4)	(0.5)	(22.7)	(43.7)	(7.5)	(15.7)	(262.4)
Employee expenses	14.5	3.4	3.5	12.0	0.6	8.1	0.3	1.2	1.1	8.6	69.4	5.5	13.3	141.5
Other service expenses	27.1	6.3	15.2	28.7	17.2	7.2	0.2	3.0	0.9	19.8	29.1	7.2	18.7	180.6
Transfers to reserves	0.0	0.0	0.3	1.9	3.8	0.0	0.0	0.0	0.0	2.6	6.1	0.0	0.2	14.9
Capital Charges														
Depreciation, amortisation and impairment	2.0	0.9	6.5	2.3	0.7	1.9	0.0	0.5	0.1	4.3	2.7	0.3	1.5	23.7
Notional interest charges	3.5	1.8	2.4	7.7	0.5	1.9	0.0	0.5	0.0	1.8	1.4	0.3	1.6	23.4
Revenue contributions to capital expenditure	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.4
Internal Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.1
Precepts & Levies	0.0	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4
	47.1	12.4	27.9	52.6	23.5	19.1	0.5	5.2	2.1	37.1	108.9	13.3	35.3	385.0
Net Expenditure/(Income)	31.0	1.0	(17.0)	11.8	(27.8)	17.2	0.0	(0.2)	1.6	14.4	65.2	5.8	19.6	122.6

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Reconciliation of Committee Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of Committee income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2010/11 £m	2009/10 £m
Net expenditure in the Committee Analysis	122.1	122.6
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	(51.8)	(6.4)
Amounts included in the Analysis not included in the cost of services in the Comprehensive Income and Expenditure Statement	94.8	51.3
Cost of Services in the Comprehensive Income and Expenditure Statement	**165.1**	**167.5**

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of Committee income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2010/11	Committee Analysis £m	Amounts not reported for decision making £m	Amounts not included in Cost of Services £m	**Cost of Services £m**	Corporate Amounts £m	**Total £m**
Fees, charges and other service income	(129.2)	0.0	42.9	**(86.3)**	(82.6)	**(168.9)**
Interest and investment income	(8.9)	0.0	8.9	**0.0**	(9.3)	**(9.3)**
City Offset	0.0	0.0	0.0	**0.0**	(10.0)	**(10.0)**
City Premium	0.0	0.0	0.0	**0.0**	(6.4)	**(6.4)**
Income from council tax	0.0	0.0	0.0	**0.0**	(5.6)	**(5.6)**
Government grants, contributions and donations	(65.8)	0.0	2.3	**(63.5)**	(116.3)	**(179.8)**
Transfers from reserves	(5.1)	0.0	5.1	**0.0**	0.0	**0.0**
Capital contras	(64.1)	0.0	64.1	**0.0**	0.0	**0.0**
City funding for refcus	(3.3)	0.0	3.3	**0.0**	0.0	**0.0**
Total Income	**(276.4)**	**0.0**	**126.6**	**(149.8)**	**(230.2)**	**(380.0)**
Employee expenses	142.5	(51.8)	(1.9)	**88.8**	1.9	**90.7**
Other service expenses	178.3	0.0	(13.3)	**165.0**	27.2	**192.2**
Transfers to reserves	11.6	0.0	(11.6)	**0.0**	0.0	**0.0**
Depreciation, amortisation and impairment	61.6	0.0	(0.5)	**61.1**	0.5	**61.6**
Notional interest charges	2.5	0.0	(2.5)	**0.0**	0.0	**0.0**
Revenue contributions to capital expenditure	1.4	0.0	(1.4)	**0.0**	0.0	**0.0**
Internal Loans	0.1	0.0	(0.1)	**0.0**	0.0	**0.0**
Interest Payments	0.1	0.0	(0.1)	**0.0**	35.8	**35.8**
Precepts & Levies	0.4	0.0	(0.4)	**0.0**	0.4	**0.4**
Gain or Loss on Disposal of Fixed Assets	0.0	0.0	0.0	**0.0**	(12.2)	**(12.2)**
Total Expenditure	**398.5**	**(51.8)**	**(31.8)**	**314.9**	**53.6**	**368.5**
Surplus or deficit on the provision of services	**122.1**	**(51.8)**	**94.8**	**165.1**	**(176.6)**	**(11.5)**

2009/10	Committee Analysis £m	Amounts not reported for decision making £m	Amounts not included in Cost of Services £m	**Cost of Services £m**	Corporate Amounts £m	**Total £m**
Fees, charges and other service income	(134.8)	0.0	44.0	**(90.8)**	(137.4)	**(228.2)**
Interest and investment income	(9.4)	0.0	9.4	**0.0**	(9.4)	**(9.4)**
City Offset	0.0	0.0	0.0	**0.0**	(9.8)	**(9.8)**
City Premium	0.0	0.0	0.0	**0.0**	(5.0)	**(5.0)**
Income from council tax	0.0	0.0	0.0	**0.0**	(5.4)	**(5.4)**
Government grants and contributions	(65.9)	0.0	1.4	**(64.5)**	(111.9)	**(176.4)**
Transfers from reserves	(3.5)	0.0	3.5	**0.0**	0.0	**0.0**
Capital contras	(47.3)	0.0	47.3	**0.0**	0.0	**0.0**
City funding for refcus	(1.5)	0.0	1.5	**0.0**	0.0	**0.0**
Total Income	**(262.4)**	**0.0**	**107.1**	**(155.3)**	**(278.9)**	**(434.2)**
Employee expenses	141.5	(6.4)	(1.9)	**133.2**	1.9	**135.1**
Other service expenses	180.6	0.0	(13.4)	**167.2**	28.9	**196.1**
Transfers to reserves	14.9	0.0	(14.9)	**0.0**	0.0	**0.0**
Depreciation, amortisation and impairment	23.7	0.0	(1.3)	**22.4**	1.3	**23.7**
Notional interest charges	23.4	0.0	(23.4)	**0.0**	0.0	**0.0**
Revenue contributions to capital expenditure	0.4	0.0	(0.4)	**0.0**	0.0	**0.0**
Internal Loans	0.1	0.0	(0.1)	**0.0**	0.0	**0.0**
Interest Payments	0.0	0.0	0.0	**0.0**	29.1	**29.1**
Precepts & Levies	0.4	0.0	(0.4)	**0.0**	0.4	**0.4**
Gain or Loss on Disposal of Fixed Assets	0.0	0.0	0.0	**0.0**	(0.1)	**(0.1)**
Total Expenditure	**385.0**	**(6.4)**	**(55.8)**	**322.8**	**61.5**	**384.3**
Surplus or deficit on the provision of services	**122.6**	**(6.4)**	**51.3**	**167.5**	**(217.4)**	**(49.9)**

29. Trading Operations

	2010/11 £m	2009/10 £m
Spitalfields Market		
Turnover	(5.3)	(5.3)
Expenditure	4.6	4.7
Surplus	(0.7)	(0.6)
Vehicle Maintenance		
Turnover	(1.0)	(1.0)
Expenditure	1.0	1.0
Surplus	0.0	0.0
Net surplus on trading operations	**(0.7)**	**(0.6)**

Spitalfields Market is a horticultural market serving wholesalers, retailers and caterers from London and a wide area in the Home Counties.

30. Agency Services

The City of London carries out certain work on an agency basis for which it is fully reimbursed. The design, maintenance and improvement of sewers are undertaken on behalf of Thames Water Utilities (T.W.U.). During 2010/11 no expenditure was incurred on behalf of T.W.U. (2009/10: £0.1m).

Revenue and capital work costing £0.8m (2009/10: £1.4m) and £3.8m (2009/10: £4.1m) respectively was undertaken on behalf of Transport for London. These sums were fully reimbursed.

31. Members' Allowances

Members do not receive any remuneration from the City of London for undertaking their duties.

32. Remuneration of Senior Employees

Tables 1 to 3 set out the information required in accordance with Regulation 7 of the Accounts and Audit (England) Regulations 2011 for 2010/11 and 2009/10 respectively.

The number of officers whose remuneration, excluding employer's pension contributions, were £50,000 or more grouped in rising bands of £5,000 is set out in Table 1. Officers have been classified between those employees charged wholly to the City Fund, including Police officers, and those employees charged partly to the City Fund and partly to other funds of the City Corporation. The numbers include those officers required to be separately disclosed and set out in Tables 2 and 3.

Table 1 – Remuneration in bands

Salary Range £	Wholly charged to City Fund				Partially Charged to City Fund	
	2010/11	2009/10	2010/11	2009/10	2010/11	2009/10
	Police Officers		Other			
50 - 54,999	117	110	52	44	58	41
55 - 59,999	68	82	23	30	50	46
60 - 64,999	49	54	11	11	29	24
65 - 69,999	16	14	7	8	20	16
70 - 74,999	1	5	1	1	9	8
75 - 79,999	3	2	6	6	7	7
80 - 84,999	3	4	3	5	3	2
85 - 89,999	3	4	1	2	3	8
90 - 94,999	4	3	3	2	6	4
95 - 99,999	3	0	3	3	4	5
100 - 104,999	0	0	0	0	3	1
105 - 109,999	0	0	1	0	1	1
110 - 114,999	0	2	0	0	1	0
115 - 119,999	0	0	0	1	1	1
120 - 124,999	0	0	1	1	0	0
125 - 129,999	0	0	2	1	1	2
130 - 134,999	0	0	0	0	1	0
135 - 139,999	0	0	0	1	0	1
140 - 144,999	1	0	0	0	2	2
145 - 149,999	0	1	0	0	1	0
150 - 154,999	1	0	0	1	0	0
175 - 179,999	0	0	0	0	0	1
180 - 184,999	0	1	1	1	1	0
220 - 224,999	0	0	0	0	0	1
235 - 239,999	0	0	0	0	1	0

Where there are no officers in a band, that band has not been included in the table.

Table 2 - 2010/11 remuneration for those senior employees and relevant police officers required to be disclosed individually

Post Title	Name	Notes	Proportion charged to Local or Police Authority Activities where less than 100%	Salary (including fees & allowances)	Bonus	Expenses	Benefits in kind	Other Payments (Police Officers only)	Total Remuneration excluding pension contributions 2010/11	Pension Contributions	Total Remuneration including Pension Contributions 2010/11
			%	£000	£000	£000	£000	£000	£000	£000	£000
Salary is £150,000 or more a year											
Town Clerk and Chief Executive	C. Duffield	i	60%	135	7	0	0	0	142	26	168
Chamberlain	C. Bilsland	i	60%	104	4	0	0	0	108	20	128
Police Commissioner	M. Bowron	ii		123	0	1	1	22	147	10	157
Police Commissioner	A. Leppard	ii		40	0	0	0	2	42	10	52
Managing Director Barbican Centre	N. Kenyon			178	5	0	0	0	183	34	217
Salary is between £50,000 and £150,000				0	0	0	0	0		0	
Director Environmental Services	-	i	90%	124	4	0	0	0	128	24	152
Director of Community & Children's Services	-			123	0	0	0	0	123	23	146
Director of Libraries, Archives and Guildhall Art Gallery	-			97	0	0	0	0	97	18	115
City Planning Officer	-			127	2	1	0	0	130	24	154
Deputy Town Clerk	-	i	60%	72	0	0	0	0	72	13	85
Comptroller & City Solicitor	-	i	60%	85	3	0	0	0	88	16	104
City Surveyor	-	i	33%	45	1	0	0	0	46	9	55
				1,253	26	2	1	24	1,306	227	1,533

Table 3 - 2009/10 remuneration for those senior employees and relevant police officers required to be disclosed individually

Post Title	Name	Notes	Proportion charged to Local or Police Authority Activities where less than 100%	Salary (including fees & allowances)	Bonus	Expenses	Benefits in Kind	Other Payments (Police Officers only)	Total Remuneration excluding pension contributions 2009/10	Pension Contributions	Total Remuneration including Pension Contributions 2009/10
			%	£000	£000	£000	£000	£000	£000	£000	£000
Salary is £150,000 or more a year											
Town Clerk and Chief Executive	C. Duffield	i	60%	133	-	-	-	-	133	25	158
Chamberlain	C. Bilsland	i	60%	104	2	-	-	-	106	20	126
Police Commissioner	M. Bowron			158	8	2	1	15	184	38	222
Managing Director Barbican Centre	N. Kenyon			178	3	-	-	-	181	34	215
Salary is between £50,000 and £150,000											
Director Environmental Services	-	i	90%	124	2	-	-	-	126	23	149
Director of Community & Children's Services A	-	iii		94	2	-	-	-	96	18	114
Director of Community & Children's Services B	-	iii		13	-	-	-	-	13	2	15
Director of Libraries, Archives and Guildhall Art Gallery A	-	iv		23	-	-	-	-	23	4	27
Director of Libraries, Archives and Guildhall Art Gallery B	-	iv		85	-	-	-	-	85	16	101
City Planning Officer	-			126	2	1	-	-	129	24	153
Deputy Town Clerk	-	i	60%	71	-	-	-	-	71	13	84
Comptroller & City Solicitor	-	i	60%	85	1	-	-	-	86	16	102
City Surveyor	-	i	33%	44	-	-	-	-	44	8	52
				1,238	20	3	1	15	1,277	241	1,518

Notes to Senior Officers and Relevant Police Officers Remuneration Disclosures

i. These officers provide services for the City of London Corporation's local authority and non-local authority activities. The remuneration included in the table above relates to the proportion charged to local authority and police activities. The annualised salary for each of these officers is as follows:

	2010/11	2009/10
	Annualised Salary	Annualised Salary
	£000	£000
Town Clerk and Chief Executive	225	221
Chamberlain	173	173
Director Environmental Services	138	138
Deputy Town Clerk	120	118
Comptroller & City Solicitor	142	142
City Surveyor	136	136

ii. The Police Commissioner (M. Bowron) retired on 3 January 2011, his annualised salary was £160,000. The Police Commissioner (A. Leppard) commenced on 4 January 2011 at an annualised salary of £164,000.

iii. The Director of Community and Children's Services (A) retired on 31 December 2009, her annualised salary was £123,000. The Director of Community and Children's Services (B) commenced on 22 February 2010 at an annualised salary of £123,000.

iv. The Director of Libraries, Archives and Guildhall Art Gallery (A) retired on 23 June 2009, his annualised salary was £98,000. The Director of Libraries, Archives and Guildhall Art Gallery (B) commenced on 11 May 2009 at an annualised salary of £95,000.

33. Audit and Inspection Fees

	2010/11	2009/10
	£m	£m
External audit services carried out by the appointed auditor under the Audit Commission's Code of Audit Practice in accordance with section 5 of the Audit Commission Act 1998.		
Authority	0.10	0.22
City of London Pension Fund	0.00	0.04
	0.10	0.26
Statutory inspection under section 10 of the Local Government Act 1999 (carried out by the Audit Commission).	0.00	0.02
Certification of grant claims and returns by the appointed auditor under section 28 of the Audit Commission Act 1998.	0.10	0.06
	0.20	**0.34**

Audit Fees in respect of the City of London Pension Fund included in the above table have been met by the Pension Fund.

In addition to the above payments of £0.06m were made for non-audit work in 2010/11 (2009/10 £0.06m).

34. Dedicated Schools Grant

In 2010/11, the City of London received a specific grant from the Department for Education, the Dedicated Schools Grant (DSG), of £2.01m (2009/10: £1.96m). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget as defined in the School Finance (England) Regulations 2008. The Schools Budget includes elements for a range of education services provided on an authority wide basis and for the Individual School Budget for maintained schools.

Details of the deployment of DSG received for 2010/11 are as follows:

	Schools Budget Funded by Dedicated Schools Grant		
	Central Expenditure	Individual School Budget	Total
	£m	£m	£m
Final DSG for 2010/11			(2.01)
Brought forward from 2009/10			(0.14)
Agreed budgeted distribution in 2010/11	(0.92)	(1.23)	(2.15)
Actual central expenditure	0.65		0.65
Actual ISB deployed to schools		1.23	1.23
Carry forward to 2011/12	**(0.27)**	**0.00**	**(0.27)**

35. Arts Council England

The Barbican Centre's income for 2010/11 includes a grant of £0.3m from Arts Council England (2009/10 £0.3m).

36. Non Distributed Costs

Past service costs in relation to police pensions have been held centrally and not recharged to services.

37. Grant Income credited to the Comprehensive Income and Expenditure Statement

The following grants, contributions and donations have been credited to the Comprehensive Income and Expenditure Statement.

	2010/11 £m	2009/10 £m
Credited to Taxation and Non Specific Grant Income		
Revenue Grants		
National Non Domestic Rates Distribution	(72.4)	(66.7)
City Offset	(6.5)	(5.0)
Revenue Support Grant	(10.5)	(15.4)
Police Grant	(21.8)	(21.0)
Area Based Grant	(1.5)	(0.9)
Local Area Agreement Reward Grant	(0.7)	0.0
Housing and Planning Delivery Grant	0.0	(0.3)
Capital Grants and contributions		
Home Office	(1.0)	(2.6)
Communities and Local Government	(0.4)	(0.1)
Transport for London	(2.3)	(1.6)
Department for Education	0.0	(0.1)
Section 106/278 Contributions	(4.2)	(2.3)
Other capital grants and contributions	(0.9)	1.1
Donations		
Barbican Centre Catering Fit-Out	(0.6)	0.0
Total	(122.8)	(114.9)

	2010/11 £m	2009/10 £m
Credited to Services		
Revenue Grants		
Home Office		
Counter Terrorism	(9.1)	(11.4)
Police Pensions	(9.1)	(7.3)
National Fraud Intelligence Bureau	(2.5)	(3.2)
Neighbourhood Policy Fund	(1.8)	(1.8)
National Lead Force for Fraud	(1.6)	(1.6)
Crimefighting Fund	(1.4)	(1.4)
South East Lead Force	(1.2)	(1.4)
Other	(1.2)	(2.9)
Department for Work and Pensions		
Housing and Council Tax Benefit	(6.2)	(6.3)
Department for Education		
Dedicated Schools Grant	(1.9)	(2.0)
Sure Start, Early Years and Childcare	(0.6)	(0.5)
Standards Fund	(0.3)	(0.3)
Other	(0.4)	(0.6)
Department for Communities and Local Government		
Cost of Collection Allowance	(1.6)	(1.6)
Supporting People	0.0	(0.8)
Preventing Homelessness grants	(0.6)	(0.5)
Other	(0.4)	(0.1)
Other revenue grants	(1.6)	(2.3)
Capital Grants and contributions (funding revenue expenditure under statute)		
Transport for London	(1.5)	(2.1)
Department for Communities and Local Government	(1.1)	(1.4)
Section 106 contributions	(0.5)	(2.5)
Other	(0.6)	0.0
Total	**(45.2)**	**(52.0)**

38. Capital Grants and Contributions Receipts in Advance

A number of grants and contributions have yet to be recognised as income as they have conditions attached to them which if they are not met will require the monies to be returned to the provider. The balances at the year end are as follows:

	2010/11	2009/10
	£m	£m
Capital Grants and Contributions Receipts in Advance		
Contributions for Highway Developments	0.4	0.3
Department for Communities & Local Government	0.1	1.5
S106/S278 Capital Contributions	47.2	42.0
Other	0.0	0.1
Total	**47.7**	**43.9**

39. **Related Party Transactions**

The code of practice on local authority accounting requires the City of London to disclose information on material "related party transactions" in accordance with Financial Reporting Standard 8.

Standing Orders

The City of London has adopted the following Standing Orders in relation to declarations of personal and beneficial interests:

"If a matter for decision is under consideration by the Court, or any Committee thereof, in which a Member has a personal interest, he must declare the existence and nature of his interest in accordance with the Code of Conduct.

If a matter for decision relating to the City of London Corporation's Housing or Barbican Residential Estates is under consideration by the Court, or any Committee thereof, which relates to land in which a Member has a beneficial interest he:

(a) must declare the existence and nature of his interest;

(b) may speak but not vote thereon"

Disclosure

Members are required to disclose their interests and these can be viewed online at www.cityoflondon.gov.uk.

Members and Chief Officers have been requested to disclose related party transactions in 2010/11. They have also been requested to make disclosures in instances where their close family has made transactions with the City of London.

During 2010/11 four Members and one Chief Officer declared interests in not for profit organisations from whom the City received services. There were six organisations and the value of services commissioned was £3.3m. Five Members and one Chief Officer declared interests in organisations to whom the City supplied services or premises. There were six organisations (five not for profit and one private company) and the income receivable was £1.7m. One Member declared the purchase of a leasehold interest in a residential property owned by the City for £0.3m

During 2009/10 services to the value of £0.1m were commissioned from two not for profit organisations in each of which an interest was declared by a different Member/Chief Officer. Income of £1.6m was receivable for premises and services supplied to five organisations (four not for profit organisations and one private company) in each of which an interest was declared by a different Member. In addition, grants totalling £0.3m were paid to a not for profit organisation in which two Members had an interest. The relevant Members did not take part in any discussion or decision relating to the grants.

All transactions complied with the City of London's procedures.

Related Party Transactions with the Museum of London

The Museum of London is financed by the City of London and the Greater London Authority with the latter being the major funder and is subject to common control by central government. The City of London's contribution in 2010/11 was £9.2m (2009/10: £7.1m). Half of the appointments to the Board are made by the City of London. However, the City of London does not exercise control of the Museum.

Related Party Transactions Disclosed Elsewhere in the Accounts

Central government has effective control over the general operations of the City Fund it is responsible for providing the statutory framework within which the City Fund operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that that the City Fund has with other parties (eg council tax bills, housing benefits). Grants from government departments are shown in Note 37.

Disclosures are made in respect of other public bodies which are subject to common control by central government in other parts of the accounts as follows:

Precepts from other Authorities

Pension Fund

40. **Leases**

Finance Leases

City as Lessee

Eight agreements have been classified as finance leases – six relating to operational properties and two in respect of investment properties. The rental payments for each lease are immaterial, the highest being £600 per annum. Consequently, no liabilities are recognised in the balance sheet and the rental payments are met in full from revenue over the terms of the leases rather than being apportioned between finance charges (interest) and reductions in the outstanding liabilities.

There are no commitments in respect of finance leases entered into before the year end but whose term has yet to commence.

City as Lessor

A long term lease was granted to the Museum of London in 1979 for its premises at London Wall. The lease has a remaining term of 59 years. The lease includes provision for the City Corporation to recover its capital costs incurred on the construction of the building by way of a loan to the Museum. The substance of this loan arrangement is effectively a finance lease.

The City has a gross investment in the lease relating to the minimum lease payments expected to be received over the remaining term. There is no residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the City in future years whilst the debt remains outstanding. The gross investment is made up of the following amounts:

	31 March 2011	31 March 2010
	£m	£m
Finance lease debtor (net present value of minimum lease payments)		
current	0.5	0.5
non-current	10.0	10.5
Unearned finance income	3.7	6.6
Gross investment in the lease	**14.2**	**17.6**

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The gross investment in the lease and the minimum lease payments receivable will be received over the following periods:

	Gross Investment in Lease		Minimum Lease Payments	
	31 March 2011	31 March 2010	31 March 2011	31 March 2010
	£m	£m	£m	£m
Not later than one year	0.8	1.0	0.5	0.5
Later than one year and not later than five years	3.2	3.9	2.1	2.0
Later than five years	10.2	12.7	7.9	8.5
	14.2	**17.6**	**10.5**	**11.0**

The minimum lease payments receivable are not contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

Operating Leases

City as Lessee

The future minimum lease payments due under non-cancellable leases in future years are:

	31 March 2011	31 March 2010
	£m	£m
Not later than one year	1.2	1.3
Later than one year and not later than five years	4.7	4.7
Later than five years	7.9	9.7
	13.8	**15.7**

The expenditure charged to the provision of services in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £1.3m (2009/10: £1.6m).

City as Lessor

The City has granted leases in respect of a number of properties, principally Investment Properties, which are treated as operating leases. The future minimum lease payments receivable under non-cancellable leases in future years are:

	31 March 2011	31 March 2010
	£m	£m
Not later than one year	37	36
Later than one year and not later than five years	126	130
Later than five years	2,000	2,026
	2,163	**2,192**

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

41. Impairment Losses

Losses on revaluation amount to £70.2m in 2010/11, of which £28.7m has been offset against the balances on the revaluation reserve and the remainder of £41.5m has been reflected in the Comprehensive Income and Expenditure Statement. The majority of these losses reflect market related movements, most notably revised Government guidance on the social housing value of Housing Revenue Account dwellings which accounts for £51.9m of overall reduction, of which £23.9m has been reflected in the Comprehensive Income and Expenditure Statement and £28m in the revaluation reserve. Some £0.4m relates to impairments identified as a result of revaluations, reflecting the increased age and obsolescence of the Barbican conservatory and the Golden Lane Recreation Centre.

42. City of London Pension Scheme

The City of London operates a funded defined benefit pension scheme for its staff employed on activities relating to its three funds (City Fund, City's Cash and Bridge House Estates). The Pension Fund is the responsibility of the City of London as a whole, which is one employer, and not the responsibility of any of its three funds. The City Fund does not have an exclusive relationship with the City of London Pension Fund and the portion of the Pension Fund that relates to City of London employee members engaged on City Fund activities is not separately identifiable. Consequently, the pension arrangements are treated as a defined contribution scheme in the City Fund accounts. This means that the surplus or deficit on the Pension Fund is not included in the City Fund Balance Sheet.

The 2010/11 employer's contribution to the scheme for staff engaged on City Fund activities was £12.3m out of a total of £19.4m for all three funds (2009/10: £12.5m out of £19.3m). There are no outstanding or pre-paid contributions at the balance sheet date.

In the UK budget statement on 22 June 2010 the Chancellor announced with that with effect from 1 April 2011 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI).

This has had the effect of reducing the City's liabilities in the Pension Fund by £69.6m and has been recognised as a past service gain in accordance with guidance set down in Urgent Issues Task Force (UITF) Abstract 48, since the change is considered to be a change in benefit entitlement.

Disclosures in relation to the overall scheme which satisfy the requirements of a defined benefit pension scheme are given below for information. The information is not used to determine the employer's pension contribution rate. This is calculated at the triennial valuation and updated by any subsequent interim valuations.

Assets and Liabilities in Relation to Retirement Benefits

a. Reconciliation of present value of the scheme liabilities

	31 March 2011	31 March 2010
	£m	£m
1 April	(969.2)	(619.9)
Current service cost		
employer's share	(22.3)	(12.8)
employees share	(8.3)	(7.6)
Interest cost	(47.4)	(41.4)
Actuarial (loss)/gain	192.6	(312.5)
Losses on curtailments	(0.5)	(0.3)
Benefits paid	29.0	24.7
Past service costs	69.6	0.0
Unfunded pension payments	0.5	0.6
31 March	**(756.0)**	**(969.2)**

b. Reconciliation of fair value of the scheme assets

	31 March 2011	31 March 2010
	£m	£m
1 April	533.3	382.7
Expected rate of return	41.4	29.2
Actuarial gains and losses	(7.1)	119.4
Employer contributions	22.0	19.7
Contributions by scheme participants	8.3	7.6
Benefits paid	(29.5)	(25.3)
31 March	**568.4**	**533.3**

The expected return on scheme assets is based on the long-term future expected investment return for each asset class at the beginning of the period (i.e. as at 1 April 2010 for the year to 31 March 2011). The return on gilts and other bonds are assumed to be the gilt yield and the corporate bond yield (with an adjustment to reflect default risk) respectively at the relevant date. The return on equities is then assumed to be a margin above gilt yields.

The actual return on scheme assets in the year was 8.5% (2009/10: 37.2%).

Scheme History

	2006/07	2007/08	2008/09	2009/10	2010/11
	£m	£m	£m	£m	£m
Present value of liabilities	(791.4)	(671.7)	(619.9)	(969.2)	(756.0)
Fair value of assets	454.6	437.9	382.7	533.3	568.4
Deficit in the scheme	**(336.8)**	**(233.8)**	**(237.2)**	**(435.9)**	**(187.6)**

For consistency the assets are shown at bid price (estimated where necessary) for the periods prior to March 2009.

Statutory arrangements for funding the deficit in the scheme mean that the financial position of the City remains sound. The deficit will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

The total employer contributions expected to be made to the scheme in the year to 31 March 2012 are £17.0m.

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Basis for Estimating Assets and Liabilities

The liabilities have been valued by the City of London's independent consulting actuaries (Barnett Waddingham) using the projected unit method, based upon the latest full valuation of the scheme as at 31 March 2010 and updated to the balance sheet date. The main assumptions used in the calculations are set out below.

	31 March 2011	**31 March 2010**
Long-term expected rate of return on assets in the scheme:		
Equity Investments	8.5%	8.6%
Gilts	4.4%	4.5%
Cash	3.0%	3.0%
Bonds	5.5%	5.5%
Mortality assumptions:		
Life expectancy in years from age 65		
Retiring today		
Men	19.1	20.8
Women	21.1	23.9
Retiring in 20 years		
Men	20.9	21.8
Women	25.0	24.8
Price Increases	2.7%	3.9%
Salary Increases	5.0%	5.4%
Pension Increases	2.7%	3.9%
Discount Rate	5.5%	5.5%
Take-up of option to convert annual pension into retirement lump sum	50.0%	50.0%

Scheme assets consist of the following categories, by proportion of the total assets held:

	31 March 2011	**31 March 2010**
	%	%
Equity Investments	79	81
Gilts	16	15
Cash	4	3
Bonds	1	1
	100	**100**

History of Experience Gains and Losses

	2006/07	**2007/08**	**2008/09**	**2009/10**	**2010/11**
	%	%	%	%	%
Experience gains/(losses) on assets	1.8	(12.5)	(23.6)	22.4	(1.3)
Experience gains/(losses) on liabilities	0.0	(5.5)	0.0	0.4	4.7

43. The Teachers' Pension Scheme

The Teachers' Pension Scheme is administered by the Teachers Pensions Agency on behalf of the Department for Education (DfE) as a multi-employer defined benefit scheme. As it is not possible to identify the assets and liabilities at individual employer level, the pension arrangements are treated as a defined contribution scheme in the City of London's accounts.

In 2010/11 the City of London's contribution to the Teachers' Pension Scheme was £0.1m and the employer's contribution rate set by the DfE was 14.1% (2009/10: £0.09m and 14.1%).

In addition, the City of London is responsible for all pension payments relating to added years that it has awarded, together with the related increases. In 2010/11 these amounted to £0.01m representing 2% of pensionable pay (2009/10: £0.01m and 2%).

44. The Police Pension Scheme

There are two Police Pension Schemes - the 1987 Scheme and the 2006 Scheme. Except where otherwise stated the "Police Pension Scheme" is used generically to cover both schemes. The Police Pension Scheme is defined benefit and unfunded. It is administered by the City of London in accordance with Home Office regulations and is not a multi-employer scheme. The Scheme is funded on a pay as you go basis, with the employer contributing a percentage of police pay into the Pension Fund and the Home Office meeting the balance. At the year end the Police Pension Fund Account is balanced to nil by either receiving a contribution from the City Fund equal to the amount by which the amounts payable from the Pension Fund for the year exceed the amounts receivable or, by paying to the City Fund the amount by which sums receivable by the Fund for the year exceed the amounts payable. Where the City Fund makes a transfer in to the Pension Fund, the Home Office will pay an equivalent top-up grant to the City. Where a transfer is made out of the Pension Fund, the City must pay the amount to the Home Office.

As the scheme is unfunded, it has no assets. The main assumptions used in calculating liabilities are the same as set out in note 42 above for the City of London Pension Scheme. As set out in note 42 the change from RPI to CPI for pension increases from April 2011 has been recognised as a past service gain and has had the effect of reducing liabilities by £50.3m (2006 Scheme £0.4m, 1987 Scheme £49.9m). There are no outstanding or pre-paid employee contributions at the balance sheet date.

Reconciliation of present value of the scheme liabilities

	31 March 2011		31 March 2010	
	2006 Scheme £m	1987 Scheme £m	2006 Scheme £m	1987 Scheme £m
1April	(2.7)	(645.3)	(0.7)	(436.0)
Current service cost	(1.3)	(14.6)	(0.4)	(7.8)
Past service costs	0.4	49.9	0.0	0.0
Interest cost	(0.2)	(35.4)	(0.1)	(29.0)
Actuarial (losses)/gains	0.8	161.1	(1.1)	(187.6)
Benefits paid	(0.1)	21.6	(0.1)	18.2
Contributions by scheme participants	(0.5)	(3.2)	(0.3)	(3.1)
31 March	**(3.6)**	**(465.9)**	**(2.7)**	**(645.3)**

Scheme History

	2006/07	2007/08	2008/09	2009/10	2010/11
	£m	£m	£m	£m	£m
Present value of liabilities					
2006 Scheme	(0.1)	(0.3)	(0.7)	(2.7)	(3.6)
1987 Scheme	(475.7)	(471.3)	(436.0)	(645.3)	(465.9)
Total	**(475.8)**	**(471.6)**	**(436.7)**	**(648.0)**	**(469.5)**

Future contributions are expected to be met by an annually assessed grant from the Home Office.

The total employer contributions, including the Government top-up grant, expected to be made to the scheme in the year to 31 March 2012 are £14.4m (1987 Scheme = £15.0m, 2006 Scheme = £(0.6)m).

History of Experience Gains and Losses

	2006/07	2007/08	2008/09	2009/10	2010/11
	%	%	%	%	%
Experience gains/(losses) on liabilities – 2006 Scheme	0.0	(74.3)	0.0	0.0	(2.7)
Experience gains/(losses) on liabilities – 1987 Scheme	0.0	9.9	0.0	0.0	(17.9)

45. Judges Pension Scheme

The Judges Pension Scheme is defined benefit and unfunded. The scheme is subject to the provisions of the Judicial Pensions and Retirement Act 1993. The Treasury is responsible for payment of Judges pensions and the City of London reimburses them in accordance with regulations made under the Act. As the scheme is unfunded it has no assets. The main assumptions used in calculating liabilities are the same as set out in note 42 above for the City of London Pension Scheme.

Reconciliation of present value of the scheme liabilities

	31 March 2011	31 March 2010
	£m	£m
1 April	(1.6)	(1.2)
Current service cost	0.0	(0.1)
Interest cost	(0.1)	(0.1)
Actuarial (losses)/gains	0.5	(0.2)
31 March	**(1.2)**	**(1.6)**

Scheme History

	2006/07	2007/08	2008/09	2009/10	2010/11
	£m	£m	£m	£m	£m
Present value of liabilities	(0.8)	(1.0)	(1.2)	(1.6)	(1.2)

History of Experience Gains and Losses

	2006/07	2007/08	2008/09	2009/10	2010/11
	%	%	%	%	%
Experience gains/(losses) on liabilities	(1.3)	1.4	(11.8)	(10.2)	(30.7)

46. Transactions Relating to Defined Benefit Pension Schemes within the Financial Statements

Retirement benefits from defined benefit pension schemes (Police and Judges) are recognised in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge against council tax is based on cash payable in the year, so the real cost of retirement benefits is reversed out of the City Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the City Fund via the Movement in Reserves Statement during the year:

	Police Pension Schemes		Judges Pension Scheme	
	2010/11	2009/10	2010/11	2009/10
	£m	£m	£m	£m
Comprehensive Income and Expenditure Statement				
Cost of Services:				
Current service cost	15.9	8.2	0.0	0.1
Past service costs	(50.3)	0.0	0.0	0.0
Financing and Investment Income and Expenditure				
Interest cost	35.6	29.1	0.1	0.1
Total Retirement Benefit Charged to the Surplus or Deficit on the Provision of Services	1.2	37.3	0.1	0.2
Other Retirement Benefit Charged to the Comprehensive Income and Expenditure Statement				
Actuarial (gains) and losses	(161.9)	188.7	(0.5)	0.2
Total Retirement Benefit Charged/(Credited) to the Comprehensive Income and Expenditure Statement	(160.7)	226.0	(0.4)	0.4
Movement in Reserves Statement				
Reversal of net charges/credits for retirement benefits in accordance with the Code	160.7	(226.0)	0.4	(0.4)
Actual amount charged against the City Fund Balance	17.8	14.7	0.0	0.0

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis on which rents are raised, is shown in the Movement on the Housing Revenue Account Statement.

Income and Expenditure Statement

2009/10 £m		2010/11 £m	2010/11 £m
	Expenditure		
5.6	Repairs and maintenance	4.9	
6.0	Supervision and management	6.1	
0.3	Negative HRA Subsidy payable	0.1	
1.5	Depreciation and impairment of non-current assets	26.3	
0.1	Movement in the allowance for bad debts	0.1	
13.5	**Total Expenditure**		37.5
	Income		
(7.4)	Dwelling rents	(7.5)	
(1.6)	Non-dwelling rents	(1.6)	
(3.4)	Charges for services and facilities	(3.0)	
(0.1)	Contributions towards expenditure	(0.1)	
(12.5)	**Total Income**		(12.2)
1.0	Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement		25.3
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:		
(0.5)	Interest and investment income		(0.3)
0.5	**Deficit for the year on HRA Services**		**25.0**

Movement on the HRA Statement

2009/10 £m		2010/11 £m	2010/11 £m
(6.3)	Balance on the HRA at the end of the previous year		(5.2)
0.5	Surplus or (deficit) for the year on the HRA Income and Expenditure Statement	25.0	
0.2	Adjustments between accounting basis and funding basis under statute	0.2	
0.7	Net increase or (decrease) before transfers to or from reserves	25.2	
0.4	Transfers (to) or from reserves	(24.4)	
1.1	Increase or (decrease) in year on the HRA		0.8
(5.2)	**Balance on the HRA at the end of the current year**		**(4.4)**

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis on which rents are raised, is shown in the Movement on the Housing Revenue Account Statement.

Income and Expenditure Statement

2009/10		2010/11	
£m		£m	£m
	Expenditure		
5.6	Repairs and maintenance	4.9	
6.0	Supervision and management	6.1	
0.3	Negative HRA Subsidy payable	0.1	
1.5	Depreciation and impairment of non-current assets	26.3	
0.1	Movement in the allowance for bad debts	0.1	
13.5	**Total Expenditure**		37.5
	Income		
(7.4)	Dwelling rents	(7.5)	
(1.6)	Non-dwelling rents	(1.6)	
(3.4)	Charges for services and facilities	(3.0)	
(0.1)	Contributions towards expenditure	(0.1)	
(12.5)	**Total Income**		(12.2)
1.0	Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement		25.3
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement:		
(0.5)	Interest and investment income		(0.3)
0.5	**Deficit for the year on HRA Services**		**25.0**

Movement on the HRA Statement

2009/10		2010/11	
£m		£m	£m
(6.3)	Balance on the HRA at the end of the previous year		(5.2)
0.5	Surplus or (deficit) for the year on the HRA Income and Expenditure Statement	25.0	
0.2	Adjustments between accounting basis and funding basis under statute	0.2	
0.7	Net increase or (decrease) before transfers to or from reserves	25.2	
0.4	Transfers (to) or from reserves	(24.4)	
1.1	Increase or (decrease) in year on the HRA		0.8
(5.2)	**Balance on the HRA at the end of the current year**		**(4.4)**

1. **Dwelling Rents**

The total rent income from dwellings was £7.5m (2009/10: £7.4m). On average during the year, routine and non-routine vacant properties amounted to 0.7% of HRA stock (2009/10: 0.7%). As at 31 March 2011 average rents and service charges were £76.64 and £10.57 a week respectively (31 March 2010: £75.34 rent and £10.57 service charge).

2. **Housing Subsidy**

Housing Subsidy is based on Government formulae that are used to calculate a number of elements in a notional account as set out below.

	2010/11 £m	2009/10 £m
Management allowance	(3.2)	(3.2)
Maintenance allowance	(2.7)	(2.6)
Major repairs allowance	(1.9)	(1.9)
Charges for capital	(0.1)	0.1
Guideline Rent income	8.1	7.9
Total HRA Subsidy due to/(from) Government	0.2	0.3

If income exceeds expenditure on the notional account, the balance is payable to Government and if expenditure exceeds income, the balance is received from Government as Housing Subsidy.

3. **Housing Stock**

As at 31 March 2011 the City of London's HRA rental stock was 1,887 dwellings. The HRA also includes costs and service charge income relating to properties sold on long leases of which there were 872 as at 31 March 2011.

	31 March 2011 No.	31 March 2010 No.
Houses and Bungalows	27	27
Flats	1,860	1,860
Total	1,887	1,887

	31 March 2011 No.	31 March 2010 No.
Stock at 1 April	1,887	1,886
New Build	0	1
Stock at 31 March	1,887	1,887

4. Arrears of Rent, Service and Other Charges

As at 31 March 2011 arrears in respect of gross income due for the year from current residential tenants were 1% of the amount due (31 March 2010: 2%). The total arrears for rent, service charges and other charges were £0.61m (31 March 2010: £0.55m) as follows:

	31 March 2011	31 March 2010
	£m	£m
Former residential tenants	0.10	0.08
Current residential tenants	0.12	0.15
Commercial tenants	0.07	0.03
Service charges	0.29	0.26
Other charges	0.03	0.03
Total arrears	0.61	0.55

5. Provision for Bad and Doubtful Debts

	2010/11	2009/10
	£m	£m
Provision at 1 April	0.35	0.29
Bad Debts written off	(0.05)	(0.03)
Increase in Provision	0.07	0.09
Provision at 31 March	0.37	0.35

6. HRA Fixed Assets

	31 March 2011	31 March 2010
	£m	£m
Council Dwellings	132.77	184.04
Other land and buildings	24.55	18.33
Vehicles, plant, furniture and equipment	0.00	0.01
Assets under construction	0.17	0.01
	157.49	202.39

In accordance with Government guidelines, dwellings have been valued at their 'existing use with vacant possession' and then reduced to reflect 'existing use for social housing'. Under new guidance issued in 2010/11, the applicable social housing 'reduction factor' is 25% +/- 5% (previously 42% +/- 5%). The vacant possession value at 31 March 2011 is estimated to be £443m which has been reduced to £133m to reflect social housing use and this value is reflected in the City Fund Balance Sheet. The reduction of £310m is a measure of the economic cost of providing council housing at less than open market rents. Other land and buildings are assessed at existing use value.

7. **Major Repairs Reserve**

	2010/11 £m	2009/10 £m
Balance 1 April	(11.51)	(10.38)
Transfer from HRA equal to depreciation		
dwellings	(2.20)	(1.36)
non dwellings	(0.21)	(0.13)
Additional transfer to/(from) HRA	0.48	(0.39)
Capital expenditure (dwellings)	2.03	0.75
Balance 31 March	(11.41)	(11.51)

From 1 April 2001 local authorities have been required to establish and maintain a Major Repairs Reserve (MRR) in relation to their HRA property. The main credit to the reserve is an amount equivalent to the total depreciation charges for all HRA assets. Where HRA depreciation charges are not equal to the major repairs allowance it is a requirement that the difference is also transferred from the HRA to the MRR. The reserve is used to finance capital expenditure and the balance is included with other capital reserves in the City Fund Balance Sheet.

8. **HRA Capital Expenditure**

Expenditure for capital purposes and methods of financing are set out below.

	2010/11 £m	2009/10 £m
Expenditure in year		
Fixed assets		
Assets under construction	0.07	0.02
Dwellings	0.93	1.25
Other Land and Buildings	0.00	0.12
Revenue expenditure funded from capital under statute	0.00	0.36
	1.00	1.75
Methods of financing		
HRA Direct Revenue Financing	0.00	0.12
Capital Receipts	0.00	0.08
Major Repairs Reserve	0.75	0.99
Reimbursements	0.21	0.52
Borrowing (from City Fund)	0.04	0.04
	1.00	1.75

Revenue expenditure funded from capital under statute relates to expenditure on sold properties which are not City of London assets.

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority (the City) in relation to the collection from taxpayers and distribution to preceptors, the Government and the City Fund of council tax and non-domestic rates.

REVENUE ACCOUNT

2009/10 £m		Notes	2010/11 £m
	INCOME		
(616.5)	Income from Business Ratepayers	1	(697.8)
(5.7)	Council Taxes		(5.9)
(0.3)	Council Tax Benefit		(0.3)
(622.5)	Total Income		(704.0)
	EXPENDITURE		
600.1	Contribution to the National Non-Domestic Rates Pool		648.9
0.0	Business Rate Supplement collected on behalf of Greater London Authority	1	30.7
1.6	Cost of Collection Allowances	3	1.7
0.5	Precept from Greater London Authority	5	0.6
5.1	Precept from City Fund - Council Tax	5	5.1
5.0	Non-Domestic Rates Premium		6.4
9.8	City Offset	4	10.0
0.3	Contribution from previous year's Collection Fund surplus	5	0.4
622.4	Total Expenditure		703.8
(0.1)	Surplus for Year		(0.2)
(0.3)	Balance 1 April		(0.4)
(0.4)	**Balance 31 March**		**(0.6)**

1. **Income from Business Rates**

The Local Government Finance Act 1988 replaced the Locally Determined Non-Domestic Rate with a National Non-Domestic Rate (NNDR) set by the Government. In addition to the NNDR, there is a discounted rate for small businesses known as the Small Business Non-Domestic Rate (SBNDR). In 2010/11 the City of London set a Standard Non-Domestic Rate of 41.8p and a Small Business Non-Domestic Rate of 41.1p. This comprises the NNDR and SBNDR of 41.4p and 40.7p respectively, plus a premium of 0.4p to provide additional funding to enable the City to continue to support Police, security activity and contingency planning in the City at an enhanced level.

In addition, for those business premises which have a rateable value of more than £55,000, the Greater London Authority (GLA) introduced a new business rate supplement (BRS) multiplier of 2p in the pound for the 2010-11 financial year to finance the Crossrail project. The City collects the BRS on an agency basis on behalf of the GLA.

		2010/11	**2009/10**
		£m	**£m**
Non-domestic rates income		(758.6)	(662.4)
Government transition scheme		7.3	(2.7)
Non-domestic rates income after transition scheme		(751.3)	(665.1)
Less:	Voids	37.4	34.6
	Mandatory and discretionary relief	9.5	7.6
	Small Business Relief	0.2	0.2
	Partly occupied allowance	2.6	1.5
	Interest	1.1	1.5
	Provision for non-collection	2.7	3.2
Net income from business ratepayers		**(697.8)**	**(616.5)**

The total rateable value of the City at 31 March 2011 was £1,797m (31 March 2010: £1,452m).

2. **Calculation of Council Tax**

The Local Government Finance Act 1992 introduced the Council Tax from 1 April 1993, replacing the Community Charge. The Act prescribes the detailed calculations that the City of London, as a billing authority, has to make to determine the Council Tax amounts. The City of London set a basic amount of £857.31 for a Band D property for 2010/11 calculated as follows:

	£m	£m
City of London's Original Budget		126.6
Less:		
Distribution from Non-Domestic rates pool	72.4	
Non-Domestic rates premium	6.5	
Government grants	32.3	
City's Offset	10.0	
Estimated Collection Fund surplus	0.3	
		121.5
Estimated amounts to be raised from Council Tax		5.1
Divided by:		
Council Tax base for the City area (number of Band D equivalent properties)		No: 5,932.62
Basic amount for Band D Property		£ 857.31

To this £857.31 is added £92.99 in respect of the precept from the Greater London Authority to arrive at the total Council Tax of £950.30 for a Band D property in 2010/11. Prescribed proportions are applied to this basic amount to determine the Council Tax amounts for each of the bands as follows:

Band	Proportion	Council Tax £
A	6/9	633.53
B	7/9	739.13
C	8/9	844.71
D	9/9	950.30
E	11/9	1,161.47
F	13/9	1,372.66
G	15/9	1,583.83
H	18/9	1,900.60

Tax Bases 2010/11

The table below shows the number of chargeable dwellings in each valuation band converted to an equivalent number of Band D dwellings. The totals for each area are described as "aggregate relevant amounts". These amounts, multiplied by the collection rate of 95%, produce the tax base for each of the areas shown.

BAND	MIDDLE TEMPLE	INNER TEMPLE	CITY AREA EXCLUDING **TEMPLES**	TOTAL CITY **AREA**
A	0.00	0.00	5.10	5.10
B	0.00	0.00	323.59	323.59
C	0.00	0.00	610.84	610.84
D	0.00	0.00	532.40	532.40
E	7.21	2.93	2,382.17	2,392.31
F	34.59	21.96	1,195.06	1,251.61
G	24.83	54.33	844.75	923.91
H	0.00	4.00	201.10	205.10
AGGREGATE RELEVANT AMOUNTS	66.63	83.22	6,095.01	6,244.86
COLLECTION RATE	95%	95%	95%	95%
TAX BASES	63.30	79.06	5,790.26	5,932.62

3. **Cost of Collection Allowances**

In accordance with paragraph 6 of Schedule 1 to the Non-Domestic Rating Contributions (England) Regulations, the City of London is allowed to deduct collection costs of £1.6m for 2010/11 from the gross amount of rates receivable for NNDR. A further allowance of £0.1m is allowed by the Greater London Authority to cover collection costs and one off set up costs in relation to the Business Rate Supplement.

4. **City Offset**

To reflect the unique characteristics of the square mile, the Government allows the City to retain an amount from the NNDR paid by City businesses.

5. **Council Tax Precepts and Demands on the Collection Fund**

	Precept/ Demand	Share of 31 March 2011 Surplus	2010/11 Total	2009/10 Total
	£m	£m	£m	£m
City of London	5.1	0.5	5.6	5.4
Greater London Authority	0.6	0.1	0.7	0.6
	5.7	**0.6**	**6.3**	**6.0**

This is an extract from a more detailed published statement, a copy of which is available on request from the Chamberlain of London.

The City of London Pension Fund is a funded defined benefits scheme. With the exception of serving police officers, teachers and judges who have their own schemes, all City of London staff are eligible for membership of the pension scheme.

The Fund is administered internally by the City of London. The Fund's investments are managed externally by several fund managers with differing mandates determined by the City of London.

Accounting Policies

i. The pension fund statements have been prepared in accordance with the Local Government Pension Scheme Regulations 2007 (as amended) and with the guidelines set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2010, having regard to the Statement of Recommended Practice, Financial Reports or Pension Schemes (revised May 2007).

ii. The pension fund accounts are accounted for on an accruals basis for income and expenditure, with the exception of transfer values in and out, which are accounted for on a cash basis.

iii. The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end.

iv. Equities traded through the Stock Exchange Electronic Trading Service (SETS), are valued on the basis of the latest bid-market price. Other quoted investments are also valued on the basis of the bid-market value quoted on the relevant stock market.

v. Unquoted securities in the form of private equity holdings are valued by the individual investment managers on an estimated basis at the year end in accordance with generally accepted guidelines. The ability to realise these private equity holdings is limited until they reach maturity and thus their values are difficult to establish as they are not readily traded.

vi. The value of fixed interest investments in the Scheme's investment portfolio excludes interest earned but not paid over at the Scheme year end. This interest is included separately within accrued investment income.

vii. Acquisition costs are included in the purchase costs of investments.

viii. Assets and liabilities in overseas currencies are translated into sterling at the exchange rates ruling at the balance sheet date. Transactions during the year are translated at rates applying at the transaction dates.

ix. The cost of administration is charged directly to the fund.

x. Income due from equities is accounted for on the date stocks are quoted ex-dividend.

xi. Income from overseas investments is recorded net of any withholding tax where this cannot be recovered.

xii. Income from fixed interest and index-linked securities, cash and short-term deposits is accounted for on an accruals basis.

xiii. Income from other investments is accounted for on an accruals basis.

xiv. The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profit and losses realised on sales of investments and unrealised changes in market value.

xv. When foreign exchange contracts are in place in respect of assets and liabilities in foreign currencies, the contract rate is used. Other assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at year end. Income from overseas investments is translated into sterling at an average rate for the period.

xvi. Surpluses and deficits arising on conversion are dealt with as part of the change in market values of the investments.

xvii. Normal contributions, both from members and employers, are accounted for in the payroll month to which they relate at rates as specified in the rates and adjustments certificate. Additional contributions from employers are accounted for in accordance with the agreement under which they are paid, or in the absence of such agreement, when received.

xviii. Under the rules of the Scheme, members receive a lump sum retirement grant in addition to their annual pension. Lump sum retirement grants are accounted for from the date of retirement. Where a member can choose to take a greater retirement grant in return for a reduced pension these lump sums are accounted for on an accruals basis from the date the option is exercised.

xix. Transfer values represent the capital sums either receivable in respect of members from other pension schemes of previous employers or payable to the pension schemes of new employers for members who have left the scheme. They take account of transfers where the trustees of the receiving scheme have agreed to accept the liabilities in respect of the transferring members before year end, and where the amount of the transfer can be determined with reasonable certainty. There were no group transfers in respect of staff in 2010/11.

xx. Administration and investment management expenses are accounted for on an accruals basis. Expenses are recognised net of any recoverable VAT.

xxi. Receipts to meet the augmentation costs of early retirements are included as other income.

Actuarial Valuation

In accordance with statutory regulations a triennial valuation of the Pension Fund was completed by the City's independent consulting actuaries, Barnett Waddingham LLP, as at 31 March 2007 using the projected unit method. The changes in employer contribution rates as a result of the March 2007 valuation were effective from 1 April 2008.

A further triennial valuation as at 31 March 2010 has been completed by the independent consulting actuaries, and the resultant employers contribution rates will be effective for the three financial years commencing 2011/12.

The main funding assumptions which follow were incorporated into the funding model used in the 2007 and 2010 valuations:

	March 2007	Real	March 2010	Real
Financial Assumptions	% p.a.	% p.a.	% p.a.	% p.a.
Discount Rate	7.6	4.2	6.9	3.4
Pay Increases	4.9	1.5	5.0	1.5
Price Inflation	3.4	0.0	3.5	0.0
Pension Increases	3.4	0.0	3.0	(0.5)

The valuations at 31 March 2007 and 31 March 2010 revealed that the relationship between the values placed on the assets held by the fund and the liabilities accrued in respect of pensionable service at that date were as follows:

	March 2007	**March 2010**
Past Service Liabilities	**£m**	**£m**
Active Members	262.6	277.1
Deferred pensioners	73.8	92.3
Pensioners	235.7	271.9
Total	**572.1**	**641.3**
Assets	(496.8)	(549.3)
Deficit	**75.3**	**92.0**
Funding Level	**87%**	**86%**

Based on the above data the derivation of the basic rate of employer's contribution is set out below:

	March 2007 Contribution rate %	**March 2010 Contribution rate %**
Future service funding rate	12.9	12.4
Past service adjustment	5.6	4.8
Total contribution rate	**18.5**	**17.2**

The past service adjustment assumes that the deficit is recovered over a 17 year period in the March 2007 valuation, and over a 20 year period in the March 2010 valuation.

The contribution rate applicable to the City of London Corporation employees for 2008/09, 2009/10 and 2010/11 is 18.5% for each of the financial years and for 2011/12, 2012/13 and 2013/14 is 17.5% for each of the financial years.

Of the employers' contributions receivable in 2010/11 amounting to £21.0m, the amounts attributable to "deficit funding" are as follows:

		Future Funding	Past-service Deficit Funding	Total Contributions
		£m	£m	£m
Scheduled Bodies	City of London	13.5	5.9	19.4
	Museum of London	0.9	0.4	1.3
Admitted Bodies	Irish Society	0.0	0.0	0.0
	Guildhall Club	0.0	0.0	0.0
	City Academy	0.3	0.0	0.3
		14.7	**6.3**	**21.0**

Account for the year ended 31 March 2011

2009/10 £m		Notes	2010/11 £m
	Contributions and benefits		
(29.1)	Contributions receivable	2	(29.5)
(5.5)	Transfers in		(3.7)
(0.5)	Other Income		(0.7)
(35.1)			(33.9)
28.1	Benefits Payable	3	30.9
4.5	Payments to and on account of leavers	4	4.4
0.6	Administrative Expenses	5	0.5
0.1	Other Expenses	6	0.1
33.3			35.9
(1.8)	Net (additions)/deductions from members		2.0
	Returns on investments		
(17.7)	Income from Investments	7	(20.0)
(137.7)	Change in market value of investment (realised and unrealised)		(29.9)
2.9	Investment Management Expenses	8	3.2
(152.5)	Net Returns on Investment		(46.7)
(154.3)	**Net (increase)/decrease in the fund during the year**		(44.7)
(412.2)	Opening net assets of the scheme		(566.5)
(566.5)	**Closing net assets of the scheme**		**(611.2)**

Net Assets Statement as at 31 March 2011

2009/10 £m		Notes	2010/11 £m
(570.7)	Investment assets	9/10	(621.8)
4.2	Current liabilities	12	10.6
(566.5)	**Net assets**		**(611.2)**

The Net Assets Statement does not take account of liabilities to pay pensions and other benefits after the period end.

1. Membership of the Fund

	Current Contributors No.	Beneficiaries In Receipt of Pension No.	Deferred Benefits No.	2010/11 Total No.	2009/10 Total No.
CITY OF LONDON	3,450	3,083	2,989	9,522	9,098
SCHEDULED BODIES:					
Museum of London	347	161	352	860	814
Magistrates Court	0	21	20	41	42
Probation Committee	0	3	0	3	3
ADMITTED BODIES:					
Irish Society	7	6	3	16	17
City Arts Trust	0	1	0	1	1
Transport Committee for London	0	3	9	12	13
Guildhall Club	7	2	3	12	12
City Academy	66	0	52	118	113
TOTALS	3,877	3,280	3,428	10,585	10,113

2. Contributions Receivable

		Normal £m	A.V.C.s £m	2010/11 £m	2009/10 £m
Employers:					
Scheduled bodies	City of London	(19.40)	0.00	(19.40)	(19.30)
	Museum of London	(1.31)	0.00	(1.31)	(1.15)
Admitted bodies	Irish Society	0.00	0.00	0.00	(0.04)
	Guildhall Club	(0.03)	0.00	(0.03)	(0.03)
	City Academy	(0.25)	0.00	(0.25)	(0.17)
		(20.99)	0.00	(20.99)	(20.69)
Employees of:					
Scheduled bodies	City of London	(7.70)	(0.20)	(7.90)	(8.15)
	Museum of London	(0.67)	0.00	(0.67)	(0.73)
Admitted bodies	Irish Society	0.00	0.00	0.00	(0.02)
	Guildhall Club	(0.01)	0.00	(0.01)	(0.01)
	City Academy	(0.10)	0.00	(0.10)	(0.09)
		(8.48)	(0.20)	(8.68)	(9.00)
Total Contributions		**(29.47)**	**(0.20)**	**(29.67)**	**(29.69)**

AVCs are Additional Voluntary Contributions and are managed externally and independently from the rest of the Pension Fund. They are paid by members to the Corporation and then get paid directly to the Fund Managers – Prudential, Equitable and Standard Life Investments.

In accordance with regulation 5(2) (c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998, these AVCs are not included in the statements of the Pension Fund Accounts.

3. Benefits Payable

	2010/11 £m	2009/10 £m
Employers:		
Scheduled bodies		
City of London		
Retired Employees		
pensions	19.44	19.57
lump sums	6.85	4.83
Lump sum on death	0.6	0.72
Widows' or Widowers' pensions	2.44	2.50
Children's pensions	0.06	0.05
	29.39	27.67
Museum of London		
Retired Employees		
pensions	0.97	0.00
lump sums	0.18	0.18
Widows' or Widowers' pensions	0.07	0.00
	1.22	0.18
Magistrates Court		
Retired Employees		
pensions	0.08	0.08
Widows' or Widowers' pensions	0.04	0.04
	0.12	0.12
Probation Committee		
Retired Employees - pensions	0.04	0.04
Admitted bodies		
Irish Society		
Retired Employees		
pensions	0.05	0.05
lump sums	0.00	0.01
Widows' or Widowers' pension	0.01	0.00
	0.06	0.06
City Arts Trust		
Retired Employees - pensions	0.01	0.01
Transport Committee for London		
Retired Employees - pensions	0.02	0.02
Guildhall Club		
Retired Employees - pensions	0.01	0.01
Total Benefits Payable	**30.87**	**28.11**

4. **Payments to and on account of leavers**

	2010/11		2009/10
	£m	£m	£m
Refunds of contributions		0.0	0.1
Transfers Out			
Transport for London Group Transfer	0.0		2.1
Individual Transfers	4.4		2.3
		4.4	4.4
		4.4	**4.5**

5. **Administrative expenses**

	2010/11	2009/10
	£m	£m
Central administration	0.4	0.5
Computer costs	0.1	0.1
	0.5	**0.6**

6. **Audit Fees**

Audit fees of £38,500 have been charged to the Pension Fund (2009/10: £38,500).

7. **Income from investments**

	2010/11	2009/10
	£m	£m
Fixed Interest :		
UK Government	(3.1)	(2.9)
UK Other	(0.4)	(0.7)
Overseas Government	(0.8)	(0.6)
Overseas Other	(0.1)	(0.1)
UK pooled units	0.0	0.0
UK equities	(5.9)	(5.7)
Overseas equities	(9.7)	(7.6)
Cash	0.0	(0.1)
	(20.0)	**(17.7)**

8. **Investment Management Expenses**

Included in these expenses are Actuary fees of £23,864 (2009/10: £9,791).

9. Investment assets

	2010/11 £m	2009/10 £m
Managed Investments		
Fixed interest securities:		
UK public sector	(71.6)	(58.6)
UK other	(6.5)	(7.0)
Overseas	(33.0)	(29.3)
Pooled Units		
UK	(1.0)	(0.4)
Listed Equities:		
UK	(126.7)	(119.3)
Overseas	(355.5)	(323.9)
Private Equity	(7.6)	(6.0)
Managed Funds - Other	(17.4)	(24.3)
Total Investment assets	**(619.3)**	**(568.8)**

10. Movements in Investment Assets 2010/11

	Value at 01/04/2010 £m	Purchases at Cost £m	Sales Proceeds £m	Change in Market Value £m	Value at 31/03/2011 £m
Artemis	98.1	70.1	(65.0)	3.7	106.9
LSV	72.2	22.8	(20.2)	3.0	77.8
Pyrford	157.3	143.0	(136.3)	4.3	168.3
Southeastern	151.5	60.6	(58.0)	11.8	165.9
Wellington Management International	83.5	31.0	(28.5)	6.5	92.5
ABN (Temporary)	0.2	0.0	0.0	0.1	0.3
Barings (Private Equity)	0.2	0.0	(0.1)	0.0	0.1
Standard Life (Private Equity)	4.1	1.3	(0.3)	0.5	5.6
Yorkshire Private Equity Fund	1.3	0.0	0.0	0.0	1.3
Environmental Technologies Fund (Private Equity)	0.4	0.2	0.0	0.0	0.6
Total Investments	**568.8**	**329.0**	**(308.4)**	**29.9**	**619.3**
Accrued Income	2.6				3.3
Investment Fees Creditors	(0.7)				(0.8)
Closing Balance	570.7				621.8

11. **Independent Custodian**

The independent custodian, Bank of New York Mellon, is responsible for its own compliance with prevailing legislation, providing monthly accounting data summarising details of all investment transactions during the period, settlement of all investment transactions, collection of income and tax reclaims.

12. **Current liabilities**

Current liabilities relate to an overdrawn cash balance.

13. **Statement of Investment Principles**

The City of London has prepared a Statement of Investment Principles, which governs decisions relating to investments and this is included in the more detailed publication available from the Chamberlain.

Account for the year ended 31 March 2011

2009/10		2010/11	
£m		£m	£m
	Contributions receivable		
	- from employer		
(7.7)	normal	(8.3)	
(0.2)	early retirements	(0.2)	
(3.4)	- from members	(3.7)	
(11.3)			(12.2)
(0.4)	Transfers in from other Police Authorities		(0.3)
	Benefits payable		
15.6	- pensions	16.2	
3.3	- commutations and lump sum retirement benefits	4.8	
18.9			21.0
	Payments to and on account of leavers		
0.1	- Transfers out to other Police Authorities		0.6
7.3	Sub-total: Net amount payable for the year before transfer from Police Authority		9.1
(7.3)	Additional contribution from Police Authority		(9.1)
0.0	**Net amount payable/receivable for the year**		**0.0**

Net Assets Statement as at 31 March

2009/10		2010/11
£m		£m
0.0	Current assets	0.2
0.0	Current liabilities	(0.2)
0.0		**0.0**

i. The Police Pension Fund was established under the Police Pension Fund Regulations 2007 (SI 2007 No. 1932).

ii. It is a defined benefits scheme, administered internally by the City of London and all City of London police officers are eligible for membership of the pension scheme.

iii. The fund's financial statements have been prepared using the accounting policies adopted for the City Fund financial statements set out on pages 13 to 24. The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. Information on the long-term pension obligations can be found in the City Fund financial statements (see note 44).

iv. Under the rules of the scheme, members may elect to commute a proportion of their pension in favour of a lump sum. Where a member has taken a commutation option, these lump sums are accounted for on an accruals basis from the date the option is exercised.

v. Transfer values represent the capital sums in respect of members' pension rights either received from or paid to other pension schemes in respect of members who have joined or left the service.

vi. The scheme is unfunded and consequently has no investment assets. Benefits payable are funded by contributions from employers and employees and any difference between benefits payable and contributions receivable is met by a top-up grant from the Home Office.

vii. Employees' and employer's contribution levels are based on percentages of pensionable pay set nationally by the Home Office and are subject to triennial revaluation by the Government Actuary's Department.

viii. The account is prepared on an accruals basis and normal contributions, both from the members and the employer, are accounted for in the payroll month to which they relate.

The City Fund Accounts and Pension Fund Accounts were approved by the Finance Committee on 26 July 2011 and signed on its behalf by:

....

Roger Chadwick
Chairman of the Finance Committee

....

Philip Willoughby
Deputy Chairman of the Finance Committee

Date:

Date:

To be inserted

Accruals – the accounting treatment, where income and expenditure is recorded when it is earned or incurred not when money is paid or received.

Actuarial gains and losses - for a defined benefit pension, changes in actuarial deficits or surpluses that arise because:

a. events have not coincided with the actuarial assumptions made for the last valuation (known as experience gains and losses) or

b. the actuarial assumptions have changed.

Actuary - a person who assesses risks and costs, in particular those relating to life assurance and investment policies, using a combination of statistical and mathematical techniques.

Bridge House Estates - a charitable Trust relating to the maintenance and support of five City of London owned bridges and the making of grants for the benefit of Greater London, particularly for the provision of transport, and access to it, for the elderly and disabled. The Trust is accounted for separately and does not form part of the City Fund statements although references are made to Bridge House Estates in certain parts of the statements.

Capital adjustment account - records the resources set aside to finance capital expenditure partly offset by the consumption of fixed assets based on historic costs (e.g. historic cost depreciation, historic cost impairment losses caused by consumption of economic benefits and revenue expenditure funded from capital under statute over the period that the City benefits from the expenditure).

Capital charge - a charge to service revenue accounts to reflect the cost of fixed assets used in the provision of services.

Capital expenditure - expenditure on the acquisition of a fixed asset or expenditure that adds to and not merely maintains the value of an existing fixed asset.

Capital receipts - the proceeds from the sale of a fixed asset such as land or council houses. Capital receipts can only be used for capital purposes e.g. funding capital expenditure or repaying debt.

City's Cash - the City of London's private fund that is accounted for separately and does not form part of the City Fund statements, although references are made to City's Cash in certain parts of the statements.

Creditors – individuals or organisations to which the City Fund owes money at the end of the financial year.

Collection Fund - statutory account showing transactions in relation to the collection of Council Tax, payments to the Greater London Authority and the administration of the National Non-Domestic Rate.

Community assets - assets that the City of London intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and gardens or historic buildings.

Current asset - an asset held which will be consumed or cease to have value within the next accounting period; examples are stock and debtors.

Current liability - an amount which will become payable or could be called in within the next accounting period; examples are creditors and cash overdrawn.

Current service cost (pensions) - the increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

Curtailment (pensions) - for a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

a. termination of employees' services earlier than expected, for example as a result of discontinuing an activity, and

b. termination of, or amendment to, the terms of a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

Debtors – individuals or organisations that owe the City Fund money at the end of the financial year.

Deferred capital receipts - these result mainly from loans to the Museum of London plus outstanding loans in respect of past sales of council dwellings to tenants who were unable to obtain a building society loan or other external means of financing. Their indebtedness is reflected in the balance sheet under long term debtors. This account shows the amount to be paid on deferred terms and is reduced each year by repayments made.

Defined benefit scheme - a pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

Defined contribution scheme - a pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and has no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Depreciation - the loss in value of an asset due to age, wear and tear, deterioration or obsolescence.

Direct revenue financing - expenditure on the provision or improvement of capital assets met directly from revenue account.

Donated assets - are assets transferred at nil value or acquired at less than fair value.

Expected rate of return on pensions assets - for a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Experience gains or losses – in pensions accounting, the element of actuarial gains and losses that relates to differences between the actual events as they have turned out and the assumptions that were made as at the date of the earlier actuarial valuation.

Fair value – Fair value is generally defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

Heritage assets - a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Impairment - a reduction in the value of a fixed asset below its carrying amount on the balance sheet.

Infrastructure assets - fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples are highways, footpaths, bridges and sewers.

Intangible assets –a non-physical item where access to future economic benefits is controlled by the local authority. An example is computer software.

Pensions interest cost - for a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Investment properties - interest in land or buildings that are held for investment potential.

Levies - these are charges incurred by the City of London to meet London-wide services. They include payments to the London Boroughs Grants Committee, the Environment Agency and the London Planning Advisory Committee.

National Non-Domestic Rate (NNDR) - a flat rate in the pound set by the Government and levied on businesses who occupy offices and buildings within the City. The income is collected by the City of London and is passed on to Central Government.

Net current replacement cost - the cost of replacing a particular asset in its existing condition and in its existing use.

Net realisable value - the open market value of an asset in its existing use (or open market value in the case of non-operational assets) less the expenses to be incurred in realising the asset.

Non-operational assets - fixed assets held but not directly occupied, used or consumed in the delivery of service. Examples are investment properties.

Past service cost (pensions) - for a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Projected unit method - an accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

a) the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases; and

b) the accrued benefits for members in service on the valuation date. The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

Provision - an amount set aside in the accounts for liabilities of uncertain timing or amount that have been incurred. Provisions are made when:

a) the City of London has a present obligation (legal or constructive) as a result of a past event;

b) it is probable that a transfer of economic benefits will be required to settle the obligation; and

c) a reliable estimate can be made of the amount of the obligation.

Reserves – Reserves are reported in two categories in the Balance Sheet of local authorities:

- Usable reserves – surpluses of income over expenditure and amounts set aside outside the definition of a provision and which can be applied to the provision of services. Certain reserves are allocated for specific purposes and are described as earmarked reserves.

- Unusable reserves – those that cannot be used to provide services. This category of reserves include adjustment accounts which deal with situations where statutory requirements result in income and expenditure being recognised against the City Fund or HRA balance on a different basis from that expected by accounting standards.

Revaluation Reserve - represents increases in valuations of assets since 1 April less amounts written off due to the 'additional depreciation' (including impairment due to consumption of economic benefit) arising because fixed assets are carried at a revalued amount rather than historic cost. It can also include reductions in values to investment properties where the reductions are not considered to be permanent.

Revenue expenditure - the day to day running costs relating to the accounting period irrespective of whether or not the amounts due have been paid. Examples are salaries, wages, repairs, maintenance and supplies.

Revenue expenditure funded from capital under statute - Legislation allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a fixed asset. The purpose of this is to enable it to be funded from capital resources rather than be charged to revenue and impact on council tax. These items are generally grant payments and expenditure on property not owned by the authority.

Scheme liabilities - the liabilities of a defined benefits pension scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

Deloitte.

Annex 2

City of London Corporation (City Fund)

Report to the Audit and Risk Management Committee on the 2011 Audit

Final Report

18 July 2011

Contents

Executive summary

We have pleasure in setting out in this document our report to the Audit and Risk Management Committee of the City of London Corporation (the City) in respect of the City Fund for the year ended 31 March 2011 for discussion at its scheduled July meeting. This report summarises the principal matters that have arisen from our audit for the year ended 31 March 2011.

This summary is not intended to be exhaustive but highlights the most significant matters to which we would like to bring your attention. It should, therefore, be read in conjunction with the report and the appendices thereto.

	Description	Detail
Key findings on audit risks and other matters		
We have concluded satisfactorily on each of the key audit risks identified in our audit plan. We did not identify any additional risks in the course of our work.	• We focused our work on the valuation of fixed assets in particular on the annual valuation of the City's investment properties. Overall we concluded that the valuation process was reasonable and that valuations reflected market conditions. • Overall, the assumptions used by the City to calculate the City Police pension liability fall within a reasonable range. • The adoption of IFRS required changes in the accounting for capital grants. We did not identify any material issues through our testing. • Our testing of revenue grants found no issues in relation to the basis of recognition, but identified an issue in relation to the evidence available to support the amount claimed and recognised in respect of one grant. • There were no material issues arising from our review of the impairment allowances made against sundry debts. • Generally the steps taken to identify changes in lease accounting arising on transition to IFRS were adequate and the judgements made were reasonable. • The City has put in place appropriately designed arrangements for the calculation of the holiday pay accrual and the results of our testing were satisfactory. • Whilst we have concluded satisfactorily on segmental disclosure information, we recommend officers give further consideration going forwards as to whether the information is too detailed because of the number of segments it has chosen to report. • Recently amended auditing standards includes a presumed risk of management override of key controls. Our testing carried out in response to this did not identify any issues.	Section 1

Executive summary (continued)

Audit status		
As anticipated in our audit plan, this year's accounts closure and audit process has been challenging and our audit is ongoing at the time of writing. Subject to the completion of certain procedures, we expect to issue an unmodified audit opinion on the accounts. We will report orally to the meeting if there are any changes.	In our audit plan we anticipated that this year's accounts closure and audit process was likely to be a challenging one for officers for a number of reasons. The timing of certain of our procedures has, indeed, been impacted in comparison to last year by: the timing of officers' completion of the restatement of the 2009/10 comparative information; the extent of documentation prepared by officers to support their assessment in areas where no IFRS transitional adjustments have been identified; the timing of the production of the draft financial statements; and the timing of responses to certain requests for information. Our audit work is ongoing at the time of writing. The main areas outstanding involve completion of certain of our internal review processes and testing in areas of our audit where we have not identified a significant risk of material misstatement in planning our audit or through the work so far carried out. Details of significant matters outstanding are included at Appendix 2. We will report to you orally in respect of any modifications to the findings or opinions contained in this report that arise on completion of these matters. On satisfactory completion of the outstanding matters, we anticipate issuing an unmodified audit opinion on the fair presentation of the 2010/11 financial statements.	Appendix 2

Identified misstatements		
We are discussing with officers a number of potential adjustments. We understand these will be corrected and do not foresee difficulties arising. We will report at the meeting on our review of the updated version of the accounts which was being prepared for Committee at the time of writing.	Audit materiality was £3.9 million (2010 £3.1 million) as set out in our Audit Plan. We are discussing with officers a number of potential adjustments to the draft financial statements, some of which require quantification. This relates, in particular, to the fixed asset note and to consequent changes to the amount of revaluation losses charged either to the Surplus or Deficit on the Provision of Services or to the Revaluation Reserve. We understand that all uncorrected misstatements identified through our work will be corrected. We do not foresee any significant difficulties arising from the finalisation of these adjustments. At the time of finalising this report, the updated financial statements were being prepared for Committee and therefore were not available for our review. We understand that all significant disclosures will be made with the exception of the date of last valuation of assets. We will report at the meeting if there are any further uncorrected misstatements or significant disclosure deficiencies identified from our review of the updated statement of accounts or from the completion of our remaining audit procedures.	

Value for money conclusion		
We expect to issue an unqualified VFM conclusion.	Based on the criteria specified by the Audit Commission and the work so far carried out, we expect to issue an unqualified value for money conclusion for the 2010/11 financial year.	Section 2

Executive summary (continued)

Accounting and internal control systems		
We have set out the more significant control observations in Section 3.	During the course of our audit we identified a number of control observations, the most significant of which are detailed in Section 3.	Section 3

Independence		
We confirm our independence.	Our reporting requirements in respect of independence matters, including fees, are covered in Section 4.	Section 4

Management representations		
There is one non-standard item in relation to the treatment of pension increases.	A copy of the representation letter to be signed by management responsible for preparation of the financial statements is included at Appendix 3. There is one non-standard representation in relation to the treatment of pension increases.	Appendix 3

1. Key audit risks

The results of our audit work on key audit risks are set out below:

Revaluation of investment properties	
We focused our work on the valuation of fixed assets in particular on the annual valuation of the City's investment properties. Overall we concluded that the valuation process was reasonable and that valuations reflected market conditions.	The City has a substantial portfolio of investment properties, which are subject to annual revaluations, and other operational properties which are subject to a 5 year rolling revaluation programme. We have focused our work on the investment portfolio in view of the ongoing volatility in prices, the size of the portfolio, its complexity and the significance of the portfolio to the financial position of the City Fund.
Deloitte response	We have looked at the high level of performance of the City Fund portfolio and compared the key valuation assumptions and inputs to published market data and market commentaries. We have also considered the approach and methodology of the external valuers and whether the stated valuation assumptions were well reasoned and supported by market evidence. The value of the like-for-like City Fund portfolio has increased by 3.97% in the year to March 2011. Taking into consideration the capital value weighting of different property types within the portfolio, the expected movement in capital values is 11.77% for the City Fund and therefore the City Fund portfolio has underperformed the IPD index. This is expected given the characteristics of the assets. We carried out analysis on individual properties within the portfolio to understand the major out-performers and received satisfactory explanations. The overall valuations at portfolio level are within our range of expectations. Overall we have concluded that the valuation process was reasonable and the valuations produced a reasonable reflection of market values within normal tolerances.

1. Key audit risks (continued)

Valuation of the gross pension liability	
Overall, the assumptions used by the City to calculate the City Police pension liability fall within a reasonable range.	This continues to be an audit risk in view of the size of the liability and the complexity of judgements in this area. The pension liability relating to the City of London Police pension fund is substantial so that its calculation is sensitive to comparatively small changes in assumptions made about future changes in salaries, price and pensions, mortality and other key variables. Some of these assumptions draw on market prices and economic indicators which have become more volatile in the current economic environment.
Deloitte response	We considered the arrangements over the engagement of the actuary and concluded satisfactorily. We included our own experts from within our specialist pensions group within our engagement team to assist in the review of assumptions used to calculate the pension liability and related in year transactions and the reasonableness of the resulting accounting entries. We concluded that, overall, the assumptions used to calculate the Police pension liability fell within a reasonable range and concluded satisfactorily on the reasonableness of the amounts calculated by the actuary. We queried the significant experience gain of £85 million with the actuary. The actuary has provided some explanation of this gain, which is partly due to membership movements and salary experience. However, a significant amount is due to roll forward error from previous accounting periods. The roll forward approach should not generally produce any material distortions if a full funding valuation is conducted. The actuary has explained that the majority of the gain arose as a result of difficulties in estimating bond rates during a period of extreme volatility over the last three years since the last actuarial valuation. As we understand the actuary has not performed a detailed experience analysis, we have not been able to make more detailed enquiries, but note that the explanations provided are not unreasonable. In the UK budget statement on 22 June 2010 the Chancellor announced that with effect from 1 April 2011 public service pensions would be up-rated in line the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). The effect of this is to reduce pension liabilities. There are two possibilities for accounting for this change in the Comprehensive Income and Expenditure Statement: in the 'Surplus or Deficit on the Provision of Services' where the reduction is regarded as a 'change in benefit'; or in 'Other Comprehensive Income and Expenditure' within 'actuarial gains or losses on pension assets and liabilities' where the reduction in liability is treated as resulting from a change in assumption. This presentation would therefore suggest that the previous assumption that future benefit payments would be uplifted by RPI was incorrect. CIPFA guidance establishes a presumption that communications made to staff on a national basis by the government will have established a constructive obligation, prior to the UK budget statement, to continue to increase police pensions in line with the RPI and therefore the change to the CPI assumption represents a change in benefit. The financial statements have been prepared on a basis which is consistent with this assumption with the effect of the change (£50 million) being presented within non distributed costs within the Surplus or Deficit on the Provision of Services. We have included a non standard representation in the draft representation letter that there have not been local communications worded in such a way as to ensure employees could not reasonably infer an expectation that future rises would be based on RPI. We have therefore concluded satisfactorily on presentation of the effect of this change within the Surplus or Deficit on the Provision of Services. The Code requires separate disclosure of material items either in the notes or on the face of the Comprehensive Income and Expenditure Statement. We understand that the latest version of the financial statements has been updated to do this.

1. Key audit risks (continued)

Accounting for capital grants	
The adoption of IFRS required changes in the accounting for capital grants. We did not identify any material issues through our testing.	The transition to IFRS requires changes to the accounting for capital grants. Accounting for capital grants and contributions through the Comprehensive Income and Expenditure Statement once any condition(s) have been met is a change of accounting policy that required City to restate their opening balances in respect of grants and contributions for comparative balance sheets as at 1 April 2009 (the transition date) and 31 March 2010, and to present a comparative Comprehensive Income and Expenditure Account for 2009/10. The Code requires that grants and contributions must be recognised immediately unless any conditions have not been met. Previously grants were held within liabilities on the balance sheet until applied to finance capital expenditure and then amortised over the life of the related asset. The Code distinguishes between stipulations made by the transferor which require funds to be spent in a specified way (conditions) and stipulations which limit or direct the purposes to which funds can be spent, but do not require the funds to be returned if not deployed in the manner specified (restrictions).
Deloitte response	We reviewed the exercise which officers had undertaken to restate entries made in relation to capital grants balances at the transition date and transactions entered into subsequently during 2009/10. The area of focus in our work was amounts previously carried on the balance sheet as receipts in advance. The larger part of this balance related to developers' contributions under Section 106 of the Town and Country Planning Act 1990 and section 278 of the Highways Act 1980. The guidance notes issued by CIPFA to accompany the Code make clear that there may be circumstances around individual agreements which prevent immediate recognition. Officers did not perform a review of individual agreements. We understand that this is because it is the policy of the City not to vary relevant terms within its standard agreement and to repay unspent amounts in circumstances where it is clear that amount can no longer be spent on the purpose for which it was given. We evaluated an example agreement and concurred with officers that the agreement contained terms which would prevent recognition to the extent that funds received had not been applied. We selected a sample of other agreements to confirm that relevant terms had not been added, deleted or amended. We have queried 3 agreements which departed from the standard terms and are discussing these with officers. We have concluded that there is no material risk arising from these exceptions to officers' assumption that the standard terms are not varied as the untested portion of the population is immaterial. The remaining balance principally relates to grants. Officers had carried out a grant-by-grant review of items in this category. In view of the lower amounts involved, we tested only 5 items totalling £2.1 million of the £3.1 million deferred on the balance sheet at 31 March 2009 and £2.3 million of the £3.4 million deferred on the balance sheet at 31 March 2010. Whilst it was not possible to obtain full documentation on all of these, on the basis of the documentation received we have concluded satisfactorily on each of these.

1. Key audit risks (continued)

Recognition of revenue grant income	
Our testing found no issues in relation to the basis of recognition, but identified an issue in relation to the evidence available to support the amount claimed and recognised in respect of one grant.	We have retained this as a risk in view of the size of this income stream, some of the complexities around recognition and the identification of an error in our sample last year which, whilst immaterial, exceeded our de minimus threshold. Accounting for grant income can be complex as the timing for recognising income in the accounts will depend on the scheme rules for each grant. The Code introduces changes to rules for the recognition of grant income although the impact of these changes is not expected to be as significant for revenue grants compared to capital grants. Under the SORP, income from revenue grants was recognised in the income and expenditure account to match the expenditure to which the grant was intended to contribute. Where the revenue grant was not ring fenced to a particular purpose or period, income was recognised immediately. Under the 2010/11 Code, income from grants is recognised as soon as all conditions have been met. The change in accounting requirements is therefore only expected to arise where the grant funder had made stipulations which amount to a restriction and not a condition (see "accounting for capital grants") and that restriction had not been satisfied at the relevant balance sheet date.
Deloitte response	Officers have not identified any restatements relating to revenue grants on transition to IFRS. We noted that the amount of revenue grants deferred at 31 March 2010 and 31 March 2009 was £1.8 and £1.9 million respectively and representing the maximum amount of any restatement in any year. We inspected our testing of income deferred in respect of revenue grants which we had carried out in each of the last two years and concluded, for our sample selections, that the grant funder had stipulated conditions which would prevent their immediate recognition under the Code and therefore that there were no differences arising on transition to IFRS for those items. We noted that the Budget Division had sent out instructions to staff involved in the preparation of the accounts highlighting the accounting requirements for revenue grants. We also carried out extended testing to check that recognition of income in 2010/11 properly reflects any conditions within the grant offer letter and accompanying documentation. We did not identify any exceptions in relation to incorrect determination of the basis for recognition. We did identify one instance where the funder had stipulated a requirement that a police grant should be spent on meeting eligible expenditure; that detailed records of that expenditure should be maintained; and that any unspent funds should be repaid to the funder. The City had claimed and recognised within the Comprehensive Income and Expenditure Statement the full amount offered of £9.0 million as the City Police believed that the City had incurred eligible expenditure of at least this amount. However, detailed records of eligible expenditure had not been prepared or other calculations to support officers' belief that eligible expenditure exceeded the amount of funds received. We have made a recommendation in Section 4 relating to this item. We await further information from officers to enable us to conclude.

1. Key audit risks (continued)

Impairment allowance against sundry debts	
There were no material issues arising from our review of the impairment allowances made against sundry debts.	The challenging economic environment and its impact on debt recovery continue to create uncertainties in the estimation of provisions.
Deloitte response	We reviewed the City's methodologies and assumptions used to calculate provisions and the overall reasonableness of the amount provided. The impairment allowance has been calculated using methods and assumptions which were consistent with the prior year. The estimate principally involved the application of discounts to categories of debt based on age and using a sliding scale from 0% for debts which are less than 3 months old to 100% for debts which are greater than one year old. The percentages applied were consistent with those selected last year. We noted that there had not been any significant change in the amount of outstanding debt over the year which might indicate a change in risk profile and, in turn, suggest the need for revision to the percentages applied. Whilst the discounts applied do not appear unreasonable (and are consistent with last year), officers have not supported their continuing pertinence by reference to recent data. In evaluating the reasonableness of the amount provided, we have: • considered the extent to which the impairment allowance estimated at 31 March 2010 in closing last year's accounts differed to the allowance actually utilised. This found that the allowance at that date had been overestimated by between £1.0 million (if assumed no further collections of debt raised prior to 31 March 2010) and £4.0 million (if assumed all remaining debt raised prior to 31 March 2010 is collected). We noted that £0.4 million of the provision last year related to specific provisions which were not utilised, but that this year less than £0.1 million of specific provision has been made. We concluded that to this extent, any overestimation of the allowance last year, would not be expected to recur this year. We also noted that past experience is that amounts have required write-off (£1.5 million last year), so that our expectation is that any overestimation of the allowance last year would lie at the lower end of the range commented on above. We therefore concluded that the collection experience over 2010/11 suggests that the provisioning methodology gives materially reasonable estimates; • the level of allowance created on debts raised in the year (£1.6 million) is consistent with the level of write-offs in the year (£1.5 million), which we would expect where appropriate provisioning is made and regular write-offs of irrecoverable debt are made; and • the proportion of write-offs to provisions suggests that, on average, irrecoverable debt is being written off between 3 and 4 years after having been raised. On this basis we have concluded that the amount of the impairment allowance is not unreasonable. We recommend that officers perform an exercise to review corporate provisioning rates (which are used as a default) in the light of recent collection experience to confirm that they remain pertinent.

1. Key audit risks (continued)

Lease accounting	
Generally the steps taken to identify changes in lease accounting arising on transition to IFRS were adequate and the judgements made were reasonable.	This is a key area of difference between the SORP and the new IFRS based Code – both in terms of the identification of leasing arrangements and their classification and consequent accounting treatment.
Deloitte response	The City undertook a review of property leases to which it was party at the transition date or entered into subsequent to that date. We discussed with officers their arrangements for checking that all material leases arrangements had been considered within the scope of this review. We noted for leases under which assets had previously been recorded on the balance sheet under the SORP, that the asset values considered as part of the review reconciled satisfactorily to the balance sheet in the published accounts. We also checked that lease arrangements subject to formal lease agreements which were previously dealt with off balance sheet were consistent with information supporting disclosures in the prior year financial statements. Under IFRS there are some arrangements that do not take the legal form of a lease but which convey rights to use assets in return for a payment or series of payments and share many features of a lease. All arrangements meeting the definition of a lease under IFRS should be accounted for in accordance as such, regardless of whether they take the legal form of a lease. Officers have explained the exercise undertaken to review significant contracts to determine if they involve the lease of an asset. Officers' review of the leases they had identified collected information on a lease-by-lease basis to inform the City's judgement on certain of the primary factors which accounting standards indicate should be considered in reaching a conclusion on the classification of a lease. Information was not collected to support officers' consideration on a lease-by-lease basis for certain other primary factors, in particular as to whether the minimum value of the lease payment represents the major part of the fair value at inception of these lease. We enquired into and considered the general assumptions which officers had made in these cases and carried out testing of a sample of leases where relevant. We concluded satisfactorily overall. There are no significant judgments on individual leases which we consider material to the accounts to bring to your attention.

1. Key audit risks (continued)

Holiday pay and other compensated, short-term absences	
The City has put in place appropriately designed arrangements for the calculation of the holiday pay accrual and the results of our testing were satisfactory.	The City did not previously make provision for such absences under the SORP as the SORP was silent on the requirement to do so. In contrast, the Code has specific requirements in this respect. We identified this as an area of focus as some authorities have experienced difficulties in capturing information on utilisation of entitlements needed to estimate the accrual.
Deloitte response	We reviewed how officers have compiled information used to calculate the accrual and tested a sample of this data back to source documentation. We found that the City maintains computerised records of individuals' holiday entitlement and its utilisation and therefore had not needed, for example, to rely on surveys of a sample of staff (for example where records are in the form of cards held by individual members of staff). We concluded that the design of these arrangements was satisfactory and the calculation of the accrual consistent with the detailed guidance published by CIPFA to accompany the Code. We carried out sample testing with generally satisfactory results. There was one department where adequate records had not been retained and could not be reconstructed following a change in systems. We concluded satisfactorily on the basis that that the ratio of holiday accrual to total payroll cost for the department was reasonable compared with other departments.

1. Key audit risks (continued)

Segment reporting	
Whilst we have concluded satisfactorily on segmental disclosure information, we recommend officers give further consideration going forwards as to whether the information is too detailed because of the number of segments it has chosen to report.	IFRS requires an entity to disclose information about its different segments to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. The guidance adopts a strict management approach to segment reporting and requires that operating segments be identified on the same basis as financial information is reported internally for the purpose of allocating resources between segments and assessing their performance. We identified this as an area of significant risk as this is a new disclosure requirement and a number of judgements need to be made in identifying reportable segments. The City also has to present information in different formats and disclose reconciliations between these.
Deloitte response	Officers did not prepare a paper setting out the rationale for the operating segments identified or the segments chosen to report in the financial statements. We have made enquires and noted the following: • Entities first need to determine who the chief operating decision maker is in their organisation. This is the individual or group whose function is to allocate resources to and assess the performance of the operating segments of an entity. We understand that officers have identified the Policy & Resources Committee and Finance Committee as performing, together, this role. This is consistent with terms of reference of these committees. • Based on the financial information that the chief operating decision maker regularly receives, they should then consider which of their activities represent separate reportable operating segments. We have inspected the financial information which the relevant committees receive and noted that this is consistent with the basis on which officers have defined the operating segments. • The Code allows (but does not require) operating segments which have similar economic characteristics to be aggregated for financial reporting. We understand that officers have not considered whether any segments meet the criteria allowing aggregation. Similarly, the Code also sets out certain thresholds below which individual segments which it has identified need not be reported but permits disclosure of segments below this threshold. Officers have chosen to report all committees engaged in City Fund activities, giving 13 reported segments. Accounting guidance does not set a precise limit on the number of operating segments for which information should be disclosed. However, it acknowledges that there may be a practical limit to the number of reportable segments that an entity separately discloses beyond which segment information becomes too detailed. The Standard suggests that, as the number of segments identified as reportable in accordance with the criteria increases above ten, the entity should consider whether a practical limit has been reached. We recommend that the City give further consideration to this area going forward. We have reviewed the format of the information which has been disclosed for the segments which the City has chosen to report, including the reconciliations, and concluded that this is consistent with the requirements of the Code.

1. Key audit risks (continued)

Management override	
Recently amended audit guidance includes a presumed risk of management override of key controls. Our testing carried out in response did not identify any issues.	Updated standards on auditing applicable for the first time this year include a new presumption of a risk of management override of key controls. New International Standards on Auditing have been issued which apply to accounting periods ending on or after 15 December 2010. These "clarified" ISAs impose many new requirements on auditors, one of which is the presumed risk of management override of control, which cannot be rebutted by the auditor. This recognises that management may be able override controls that are in place to prevent inaccurate or even fraudulent financial reporting.
Deloitte response	Our work will focus on testing of journals, significant accounting estimates and any unusual transactions, including those with related parties. In testing journals, we made use of computer assisted audit techniques to analyse the whole population of journals and to identify those which had features which can be indicators of possible fraud and to focus our testing on these. We did not identify any issues from this work. Our consideration of key accounting estimates is discussed above. We did not identify any bias in preparing these estimates. We did not identify any transactions through our testing where the business rationale was not clear. We have concluded satisfactorily on this area of risk.

2. Value for money conclusion

Introduction

As the Committee are aware, we are still required under the Code of Audit Practice to issue a conclusion on whether we are satisfied that the City has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

The auditor informs and limits their VFM conclusion, by reference to 'relevant criteria'. These criteria cover particular areas of audited bodies' arrangements, specified by the Commission under the Code.

We set out in our audit plan new criteria which the Audit Commission had specified applicable to 2010/11, as follows:

Specified criteria for auditors' VFM conclusion	Focus of the criteria for 2011
The organisation has proper arrangements in place for securing financial resilience.	The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Conclusion

At the time of writing our work on the second criterion was still in progress, but we expect to issue an unqualified conclusion.

We will report orally to the meeting if there is any change to our findings or conclusion.

3. Accounting and internal control systems

Control observation

During the course of our audit we identified a number of control observations, the most significant of which are detailed below.

Counter terrorism grant	
Description	Our testing identified a grant to support expenditure on counter terrorism activities where the funder had stipulated a requirement that: the grant should be spent on meeting eligible expenditure; that detailed records of that expenditure should be maintained; and that any unspent funds should be repaid to the funder. The City had claimed and recognised within the Comprehensive Income and Expenditure Statement the full amount offered of £9.0 million the City Police believe that the City has incurred eligible expenditure of at least that amount. The current coding structure does not capture information in a form which facilitates the preparation of a detailed analysis of eligible expenditure and none was prepared to support the claim. Also, in arriving at the judgement that eligible expenditure exceeded the grant received, officers did not prepare a paper setting out the assumptions they had made and the information they considered in making those assumptions.
Recommendation	Prepare a record of eligible expenditure for the counter terrorism grant or explanation of entitlement which meets the grant funder's requirements and explains and supports the amount of grant which the City has claimed.
Management response	The Force is developing a performance / activity framework that will capture its counter terrorism activity and allow it to be measured.
Timeframe:	31 December 2011
Owner:	Frank Armstrong, Assistant Commissioner – ACPO Operations

3. Accounting and internal control systems (continued)

Partial exemption calculation	
Description	The Corporation is able to recover input tax directly attributable to its exempt business activities where HMRC consider it to be an 'insignificant' proportion of the total VAT incurred ("insignificant" means that this input tax is less than 5% of the total VAT incurred on all goods and services purchased for both business and non-business activities). Should the input tax relating to exempt supplies exceed this 5% de-minimis limit, then ordinarily the Corporation would be unable to recover any of the input tax relating to exempt supplies. For the year ending 31 March 2009, there was a temporary moratorium in effect on the operation of this 5% rule such that all local authorities were deemed to be treated as satisfying this rule. This moratorium is no longer in effect. As such, the Corporation was required to undertake a calculation for the VAT year ending 31 March 2010 to confirm that its input tax relating to exempt supplies did not exceed the 5% de-minimis limit. This should be completed by 30 September and the local authority contact HMRC where the limit has been breached. We had discussions with officers during last year's audit about this requirement. They were aware of the requirement and the work was in progress. We held further discussions this year. Whilst a provisional calculation for both 2009/10 and 2010/11 were available, investigation of certain items within the 2009/10 calculation had not been completed and it is not clear without completion of those investigations that the 5% limit will not have been breached. The 2010/11 calculation has been performed only on an approximated basis using information in the provisional 2009/10 calculation and assumptions about movements between the two years. Whilst we are satisfied that the potential exposure in respect of the City Fund accounts is not material (should the 5% have been breached and should HMRC seek to recover amounts), the amounts are nonetheless substantial across the Corporation's different funds and reflect on the City's administration of VAT.
Recommendation	Review the information which the Corporation needs to prepare its partial exemption calculation and consider any changes which can be made to systems to enable the inputs to the calculation to be gathered in a more automatic way. Ideally the systems should enable information to be prepared readily, both on the outturn position, the position reflected in the budget and at interim dates, if required. Agree and monitor a timetable for the preparation of the calculation and agree arrangements for its review. Seek to have the relevant calculations completed in good time for consideration with the annual financial statements and in line with other timing requirements. Prepare a summary paper which sets out the main elements of the calculation for each year, any assumptions and sensitivities within it and the recommended outcome and provisioning positioning for the Authority to take.

3. Accounting and internal control systems (continued)

Partial exemption calculation (continued)	
Management response	It is recognised in HMRC's guidance that a "broad brush" approach is permissible provided that total exempt input tax is within the 5% limit. With regard to 2009/10, some minor areas have been estimated on this basis and, overall, it is considered that this approach tends to overstate the amount of exempt income tax. With regard to the estimate for 2010/11, the methodology adopted in flexing the calculation for actual capital spend and significant variations in revenue VAT costs is considered to give a reasonable indication of the likely level of exempt input tax for the year and this is anticipated to be within the 5% limit. In summary, therefore, Management believes that the various actions taken in calculating and monitoring the City's partial exemption position is sound and that any breach of the limit is unlikely. It is accepted that the calculation should be finalised by September following the financial year end. The staffing resource position with regard to the City's VAT affairs has been identified internally as being inadequate and in need of reinforcement. Following the recent retirement of the Group Accountant, Banking and Investment, there is an opportunity to restructure within the Division and to provide some formal assistance to the VAT Accountant. These plans are currently being drawn up and, following senior management consideration and consultation, it is anticipated that an appropriate level of support can be agreed and implemented.
Timeframe:	December 2011
Owner:	Paul Mathews, Corporate Treasurer

3. Accounting and internal control systems (continued)

Documentation of management estimates and judgements	
Description	In preparing the financial statements, officers need to make decisions on a number of sometimes complex technical accounting issues and areas of judgement. We view it as important that officers document the rationale for these accounting decisions and the information considered to facilitate the City's own review and confirmation of the judgements formed, to provide a record should future questions arise and to facilitate timely external audit scrutiny. We have reported in the past on areas where officers had not prepared such documentation.
Recommendation	In preparing the financial statements, and otherwise as particular issues arise, identify any key technical accounting issues and areas of judgement which are more complex, prepare accounting papers setting out officers' consideration of these matters, the judgement formed, the rationale for that judgement and references to any relevant documents and other information.
Management response	Given limited resources, there is often a dilemma of whether to write about an issue or to make progress in resolving it, with the former not necessarily being helpful for the latter. Resolving complex technical accounting issues is often an iterative process with clarification emerging gradually based on examination of data and the development of guidance. In many cases, the preparation of an 'accounting paper' on how an issue will be tackled will bear little relationship to how it was actually dealt with, making the time spent on the original paper largely abortive and an ineffective use of limited resources. The timing of the audit at the City is another factor to be taken into account. Unlike many organisations, the auditors commence their review in the knowledge that many of the annual reports and financial statements are still being finalised. This timetable is to facilitate approval of the accounts and the issuing of the audit opinions before the summer recess. Most other organisations would complete their reports and financial statements prior to the commencement of the audit, providing the opportunity for full working papers and perhaps 'accounting papers' to be available from the start of that audit. Whilst management generally accept that complex accounting issues should be documented, in return it expects the auditors to have realistic expectations given the resources available. With such an understanding, progress can be made to our mutual benefit.
Timeframe:	Ongoing - dependent upon issues arising and agreement with the auditors.
Owner:	Stephen Telling, Chief Accountant

3. Accounting and internal control systems (continued)

Approval of journals	
Description	It has not been the City's policy in the past to approve journals that are entered into the main accounting records. This may mean that errors arising from inappropriate journals may go undetected. Journals can also be the means by which an individual might seek to hide fraud or commit fraud through manipulation of reported financial information.
Recommendation	Design and implement arrangements for the approval of journals.
Management response	This issue is raised cyclically by auditors and therefore the following response should be familiar. It is important to balance the desirability of supervising the postings of journals against the risk posed by incorrect journals and the overhead involved. This would include, in many cases, a manager having to review (possibly to the point of duplication) a significant volume of work in order to achieve an appropriate level of assurance. The input of journals is currently restricted to accountants in the Financial Services Division and the Barbican Centre/GSMD. For journal requests received from departments, accountants should review them before determining whether they should be input thus providing a separation of duties. Accountants will be reminded of the importance of this check. All journals should be adequately narrated and where the narration is not intuitive there should be a reference to supporting information. Again, accountants will be reminded of the importance of adequate narratives, in both journals received from departments as part of the review process, and in their own journals. There are, of course, other checks and balances which help to promptly identify fraudulent and erroneous journals, in particular, effective budgetary control and regular monitoring/clearance of holding, control and suspense accounts. On balance, management is not convinced that the potential improvement in controls as a result of more formal authorisation and documentation processes would justify the associated overhead. Access to the journal input facility is being reviewed as part of the implementation of the Strategic Finance Review and the auditors concerns will be considered in determining the number of officers to be provided with access. However, in general, all accountants above a certain level/grade (to be determined) should be allowed to input journals without an internal check.
Timeframe:	Not applicable
Owner:	Stephen Telling, Chief Accountant.

4. Other matters for communication

As part of our obligations under International Standards on Auditing (UK & Ireland) and the Companies Act, we are required to report to you on the matters listed below.

Independence	We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and the objectivity of the audit engagement partner and audit staff is not compromised. If the audit committee wishes to discuss matters relating to our independence, we would be happy to arrange this.
Non-audit services	An analysis of professional fees earned by Deloitte and met by the City Fund in the period from 1 April 2010 to 31 March 2011 is included in Appendix 1. Non-audit fees have related to property related advisory services sourced from Drivers Jonas Deloitte. We agreed in 2009/10 a protocol for the procurement and pre-approval by the Corporation of such services to ensure visibility of these as well as proper consideration of the potential impact on our audit independence. We understand this protocol has been applied throughout 2010/11. We confirm that we do not consider the nature of quantum of such services to impact our audit independence.
Fees	An analysis of professional fees earned by Deloitte in the period from 1 April 2010 to 31 March 2011 is included in Appendix 1.
International Standards on Auditing (UK and Ireland)	We consider that there are no additional matters in respect of those items highlighted in our publication "Briefing on audit matters" (attached at Appendix 5) to bring to your attention that have not been raised elsewhere in this report or our audit plan.
Liaison with internal audit	The audit team, following an assessment of the independence and competence of the internal audit department, reviewed the findings of internal audit. There were no areas where we needed to adjust our audit approach as a result.
Written representations	A copy of the representation letter to be signed on behalf of City has been attached at Appendix 4. There are is one non-standard representation which is given in respect of the accounting treatment consequent to the change to Consumer Price Index to index future pensions to City Police staff.
Note on electronic publication	We bring to your attention that, if you publish or distribute your statement of accounts electronically, you are responsible for ensuring that any such publication properly presents the annual report and any report by us thereon and for the controls over, and security of, the website. You are also responsible for establishing and controlling the process for electronically distributing such reports. ISA (UK and Ireland) 720 and APB Bulletin 2001/1 set out the procedures auditors follow before electronic distribution of their reports. In order that we can carry out these procedures you will provide us with a copy of the financial information in electronic form before it is published. You agree that you will obtain our written consent to any electronic publication including the use of our name or our report(s) before it occurs. We reserve the right to withhold consent to electronic publication if we are not able to satisfactorily perform the procedures set out in the Bulletin.

5. Responsibility statement

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body and in this report is prepared on the basis of, and our audit work is carried out, in accordance with that statement.

This report should be read in conjunction with the "Briefing on audit matters" attached at Appendix 5 and sets out those audit matters of governance interest which came to our attention during the audit. Our audit was not designed to identify all matters that may be relevant to City and this report is not necessarily a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

This report has been prepared for the members of the City of London Corporation, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

Deloitte LLP

Chartered Accountants

St Albans
18 July 2011

Appendix 1: Analysis of professional fees

The professional fees earned by Deloitte in respect of the period 1 April 2010 to 31 March 2011 are as follows:

	2011 £'000	2010 £'000
Fees payable in respect of our work under the Code of Audit Practice in respect of the City Fund	179	212
Fees payable in respect of the certification of grants	59	50
Total fees payable in respect of our role as Appointed Auditor	238	268
Non audit fees		
Property advisory services	61	-
	299	268

Note: Our work in respect of 2010/11 is ongoing and the amount shown above is an estimate only.

The fees receivable in respect of private and voluntary funds and in respect of the local government pension scheme are dealt with in separate reports to this meeting of the Audit and Risk Management Committee.

In March 2010 Deloitte completed the merger of its practice with that of Drivers Jonas. Drivers Jonas, now Drivers Jonas Deloitte ("DJD") has provided property advisory services to the City prior to and after the merger.

The services are subject to a protocol previously agreed by the Audit and Risk Management Sub Committee.

Appendix 2: Audit status

Our audit, conducted in accordance with our Audit Plan presented to you on at your meeting in March 2011 is ongoing and is subject to the satisfactory completion of the matters set out below:

- Completion of certain internal review procedures
- Completion of certain procedures on areas identified in the section 1 on audit risks
- Completion of certain audit procedures in non risk areas. This includes evidence in relation to the application of the City's policy on the categorisation of cash and cash equivalents in relation to Money Market Funds; the resolution of items provisionally identified as disclosure deficiencies; audit of the amended fixed asset note; receipt and audit of the analysis of the revaluation reserve and the updated categorisation of revaluation losses between revaluation reserve and surplus or deficit on provision of services; audit of amendments in relation to treatment of lump sum payments; resolution of disclosure deficiencies.
- Review of the annual governance statement
- Representation letter (as attached at Appendix 3)
- Update of post balance sheet events review

Appendix 3: Draft representation letter

This representation letter is provided in connection with your audit of the financial statements of the City of London Corporation (City Fund) for the year ended 31 March 2011 for the purpose of expressing an opinion as to whether the financial statements present fairly the financial position of City of London Corporation (City Fund) at 31 March 2011 and of the results of its operations, other comprehensive income and expenditure and its cash flows for the year then ended in accordance with applicable accounting framework and Accounts and Audit Regulations 2003 (as amended).

We acknowledge our responsibilities for preparing financial statements for the City of London Corporation (City Fund) ("the local authority") which present fairly and for making accurate representations to you. For the avoidance of doubt, references to the local authority should be taken as applying equally to the City of London Pension Scheme and references to the financial statements of the local authority, includes information in those financial statements dealing with the City of London Pension Scheme.

We confirm, to the best of our knowledge and belief, the following representations.

Financial statements

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with the applicable financial reporting framework and the Accounts and Audit Regulations 2003 (as amended) which give a true and fair view.

2. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

3. The measurement processes, including related assumptions and models used to determine accounting estimates in the context of the applicable financial reporting framework are appropriate and have been applied consistently.

4. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of IAS24 "Related party disclosures".

5. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.

6. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to liquidate the Trust or cease trading as we consider we have realistic alternatives to doing so. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the company's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.

7. [The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements and disclosure deficiencies is detailed in the appendix to this letter].

8. We are not aware of events or changes in circumstances occurring during the period which indicate that the carrying amount of fixed assets or goodwill may not be recoverable.

Information provided

9. We have provided you with all relevant information and access.

10. All minutes of directors and management meetings during and since the financial year have been made available to you.

11. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.

12. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

13. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

14. We are not aware of any fraud or suspected fraud that affects the entity and involves:
    (i). management;
    (ii). employees who have significant roles in internal control; or
    (iii). others where the fraud could have a material effect on the financial statements.

15. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

16. We are not aware of any instances of non-compliance, or suspected non-compliance, with laws, regulations, and contractual agreements whose effects should be considered when preparing financial statements

17. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

18. No claims in connection with litigation have been or are expected to be received.

19. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.

20. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

21. We are not aware of any events or changes in circumstances occurring during the period which indicate that the carrying value of fixed assets may not be recoverable.

22. We have not provided information to current and former staff of City Police prior to 1 April 2010 which would give to an expectation other than that pensions would rise in line with the Retail Price Index. As a result we confirm our view that the reduction in the liability arising from the change to the Consumer Price Index is properly accounted for as a change in benefits.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed on behalf of the Corporation of London

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Appendix 5: Briefing on audit matters

Published for those charged with governance

This document is intended to assist those charged with governance to understand the major aspects of our audit approach, including explaining the key concepts behind the Deloitte Audit methodology including audit objectives and materiality.

Further, it describes the safeguards developed by Deloitte to counter threats to our independence and objectivity.

This document will only be reissued if significant changes to any of those matters highlighted above occur.

We will usually communicate our audit planning information and the findings from the audit separately. Where we issue separate reports these should be read in conjunction with this "Briefing on audit matters".

Approach and scope of the audit

Primary audit objectives

We conduct our audit in accordance with International Standards on Auditing (UK & Ireland) as adopted by the UK Auditing Practices Board ("APB"). Our statutory audit objectives are:

- to express an opinion in true and fair view terms to the members on the financial statements;
- to express an opinion as to whether the accounts have been properly prepared in accordance with the relevant Code of Practice;

Other reporting objectives

Our reporting objectives are to:

- present significant reporting findings to those charged with governance. This will highlight key judgements, important accounting policies and estimates and the application of new reporting requirements, as well as significant control observations; and
- provide timely and constructive letters of recommendation to management. This will include key business process improvements and significant controls weaknesses identified during our audit.

Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.

Materiality (cont'd)

"Materiality" is defined in the International Accounting Standards Board's "Framework for the Preparation and Presentation of Financial Statements" in the following terms:

"Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful."

We determine planning materiality based on professional judgment in the context of our knowledge of the audited entity, including consideration of factors such as shareholder expectations, industry developments, financial stability and reporting requirements for the financial statements.

We determine planning materiality to:

- determine the nature, timing and extent of audit procedures; and
- evaluate the effect of misstatements.

The extent of our procedures is not based on materiality alone but also the quality of systems and controls in preventing material misstatement in the financial statements, and the level at which known and likely misstatements are tolerated by you in the preparation of the financial statements.

Uncorrected misstatements

In accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK and Ireland)") we will communicate to you all uncorrected misstatements (including disclosure deficiencies) identified during our audit, other than those which we believe are clearly trivial.

ISAs (UK and Ireland) do not place numeric limits on the meaning of 'clearly trivial'. The Audit Engagement Partner, management and those charged with governance will agree an appropriate limit for 'clearly trivial'. In our report we will report all individual identified uncorrected misstatements in excess of this limit and other identified errors in aggregate.

We will consider identified misstatements in qualitative as well as quantitative terms.

Audit methodology

Our audit methodology takes into account the changing requirements of auditing standards and adopts a risk based approach. We utilise technology in an efficient way to provide maximum value to members and create value for management and the Board whilst minimising a "box ticking" approach.

Our audit methodology is designed to give directors and members the confidence that they deserve.

For controls considered to be 'relevant to the audit' we evaluate the design of the controls and determine whether they have been implemented ("D & I"). The controls that are determined to be relevant to the audit will include those:

- where we plan to obtain assurance through the testing of operating effectiveness;
- relating to identified risks (including the risk of fraud in revenue recognition, unless rebutted);
- where we consider we are unable to obtain sufficient audit assurance through substantive procedures alone; and
- to enable us to identify and assess the risks of material misstatement of the financial statements and design and perform further audit procedures

Other requirements of International Standards on Auditing (UK and Ireland)

ISAs (UK and Ireland) require we communicate the following additional matters:

ISA (UK & Ireland)	Matter
210	Terms of audit engagements
240	The auditor's responsibility to consider fraud in an audit of financial statements
250	Consideration of laws and regulations in an audit of financial statements
315	Obtaining an understanding of the entity and its environment and assessing the risks of material misstatement
320	Audit materiality
545	Auditing fair value measurements and disclosures
550	Related parties
560	Subsequent events
570	Going concern
580	Management representations
720 (revised)	Section A: Other information in documents containing audited financial statements
	Section B: The auditor's statutory reporting responsibility in relation to directors' reports

Independence policies and procedures

Important safeguards and procedures have been developed by Deloitte to counter threats or perceived threats to our objectivity, which include the items set out below.

Safeguards and procedures

- Every opinion (not just statutory audit opinions) issued by Deloitte is subject to technical review by a member of our independent Professional Standards Review unit.
- Where appropriate, review and challenge takes place of key decisions by the Second Partner and by the Independent Review Partner, which goes beyond ISAs (UK and Ireland), and ensures the objectivity of our judgement is maintained.
- We report annually to those charged with governance our assessment of objectivity and independence. This report includes a summary of non-audit services provided together with fees receivable.
- There is formal consideration and review of the appropriateness of continuing the audit engagement before accepting reappointment.
- Periodic rotation takes place of the audit engagement partner, the independent review partner and key partners involved in the audit in accordance with our policies and professional and regulatory requirements.
- In accordance with the Revised Ethical Standards issued by the APB, there is an assessment of the level of threat to objectivity and potential safeguards to combat these threats prior to acceptance of any non-audit engagement. This would include particular focus on threats arising from self-interest, self-review, management, advocacy, over-familiarity and intimidation.
- In the UK, statutory oversight and regulation of auditors is carried out by the Professional Oversight Board (POB) which is an operating body of the Financial Reporting Council. The Firm's policies and procedures are subject to external monitoring by both the Audit Inspection Unit (AIU), which is a division of POB, and the ICAEW's Quality Assurance Directorate (QAD). The AIU is charged with monitoring the quality of audits of economically significant entities and the QAD with monitoring statutory compliance of audits for all other entities. Both report to the ICAEW's Audit Registration Committee. The AIU also reports to POB and can inform the Financial Reporting Review Panel of concerns it has with the accounts of individual companies.

Independence policies

Our detailed ethical policies' standards and independence policies are issued to all partners and employees who are required to confirm their compliance annually. We are also required to comply with the policies of other relevant professional and regulatory bodies.

Amongst other things, these policies:

- state that no Deloitte partner (or any closely-related person) is allowed to hold a financial interest in any of our UK audited entities;
- require that professional staff may not work on assignments if they (or any closely-related person) have a financial interest in the audited entity or a party to the transaction or if they have a beneficial interest in a trust holding a financial position in the audited entity;
- state that no person in a position to influence the conduct and outcome of the audit (or any closely related persons) should enter into business relationships with UK audited entities or their affiliates;
- prohibit any professional employee from obtaining gifts from audited entities unless the value is clearly insignificant; and
- provide safeguards against potential conflicts of interest.

Remuneration and evaluation policies

Partners are evaluated on roles and responsibilities they take within the firm including their technical ability and their ability to manage risk.

APB Revised Ethical Standards

The Auditing Practices Board (APB) has issued five ethical standards for auditors that apply a 'threats' and 'safeguards' approach.

The five standards cover:

- maintaining integrity, objectivity and independence;
- financial, business, employment and personal relationships between auditors and their audited entities;
- long association of audit partners and other audit team members with audit engagements;
- audit fees, remuneration and evaluation of the audit team, litigation between auditors and their audited entities, and gifts and hospitality received from audited entities; and
- non-audit services provided to audited entities.

Our policies and procedures comply with these standards.

Deloitte.

Annex 3

City of London Corporation Pension Fund

Report to the Audit and Risk Management Committee on the 2010/11 Local Government Pension Scheme Audit

18 July 2011

Contents

Executive summary

We have pleasure in setting out in this document our report to the Audit and Risk Management Committee of the City of London Corporation Pension Fund for the year ended 31 March 2011 for discussion at the meeting scheduled for 26 July 2011. This report summarises the principal matters that have arisen from our audit for the year ended 31 March 2011.

This summary is not intended to be exhaustive but highlights the most significant matters to which we would like to bring your attention. It should, therefore, be read in conjunction with the report and the appendices thereto.

	Description
Key findings on audit risks and other matters	We discuss within Section 1 the results of our work in relation to key audit risks which have been identified as being significant to the 2010/11 accounts, and which were presented in our Audit Plan to the Audit and Risk Management Committee in March 2011 as follows: **Key risks** 1. Contributions: The risk surrounding identification, calculation and payment of contributions, due to the complexities surrounding admitted bodies, has been successfully covered through our testing with no issues noted; 2. Benefits: Complexities of the calculation of both benefits in retirement and ill health and death benefits have been reviewed during our testing with no issues identified; 3. Investments: The unquoted investments have successfully been agreed to independent returns; 4. Accounting for International Financial Reporting Standards ('IFRS'): management have elected to disclose the actuarial liability following the requirements in Option B. The note to the financial statement on the actuarial liability of the scheme as at 31 March 2011 complies with the requirements of the Code; and **Other risk areas** 1. Management Override of Controls: all testing was completed with satisfactory results; 2. Revenue recognition: work performed in the current year has not indicated that the rebuttal of revenue recognition risk is inappropriate.

Executive summary (continued)

Audit status	We are satisfied that the status of the audit is as expected at this stage of the timetable agreed in our audit plan. We have substantially completed our audit in accordance with our Audit Plan which was presented to you in March 2011 subject to the satisfactory completion of the matters set out below: • receipt of remaining independent investment manager confirmations; • receipt of remaining latest audited accounts for private equity investments; • completion of investment testing agreeing to independent reports; • completion of financial instruments specialist review; • receipt of signed management representation letter; • review process to be completed on the financial statements; and • update of post balance sheet event review. We will report to you orally in respect of any modifications to the findings or opinions contained in this report that arise on completion of these matters. At the date of this report, subject to the satisfactory completion of the outstanding matters referred to above, there are no matters in relation to the Local Government Pension scheme information that would result in the issuance of a modified audit opinion.
Identified misstatements	As set out in our planning report, audit materiality was set at £3.9 million (2010/11 £3.1 million). We report all unadjusted misstatements greater than £78,000 (2% of materiality) (2010/11: £62,000) to you. There are no identified uncorrected misstatements above this level and no qualitatively material misstatements that we wish to bring to your attention, subject to completion of the above procedures.
Accounting and internal control systems	During the audit we identified two areas for improvement in relation to the internal control system. These improvements related to the review of the AAF01/SAS 70 reports on the internal control environment at the investment managers and the use of the new pension fund bank account. Further detail on the areas for improvement in the internal control system is included in Section 2 of the report.
Current accounting and regulatory issues	We have included within this report accounting and regulatory issues that affect the pension fund industry, particularly focus areas of the Pensions Regulator (TPR). Although the City of London Corporation Pension Fund in not regulated by TPR these are guidelines for improving process and represent best practice in the industry.

1. Key audit risks

The results of our audit work on key audit risks are set out below:

Contributions	
Audit risk	In view of the complexity arising from the participation of different employers within the Fund, we have included the identification, calculation and payment of contributions as an area of significant risk.
Deloitte response	We have performed the following testing to address the significant risks around contributions: • we reviewed the design and implementation of controls present at the Fund for ensuring contributions from all Scheduled and Admitted bodies are identified and calculated correctly; • we performed tests of details to test the calculation of individual members contributions to ensure calculated in accordance with the actuarial valuation and schedule of rates; and • we developed an expectation based on changes in membership numbers and changes in contribution rates to analytically review the contributions received in the year, the results of which fell within our tolerance level. All testing was completed with satisfactory results.

1. Key audit risks (continued)

Benefits	
Audit risk	Changes were made to the Fund from April 2008 which introduced complexities into the calculation of both benefits in retirement and ill health and death benefits which are in addition to the annual increases required by the 1997 Regulation and Pension (Increases) Act 1971. In June 2010 the Government announced its intention to move to the Consumer Price Index (CPI) as the measure of inflation for pension increase purpose. This change came into effect for the 2011 increases.
Deloitte response	The following tests were performed to address the significant risk around benefits: • we reviewed the design and implementation of controls present at the Fund for ensuring the accuracy, completeness and validity of benefits through discussion with the pensions team and testing that controls were in force during the year under review; • we obtained a schedule of benefits paid and selected a sample of benefits for detailed testing. The sample was tested through agreement to supporting documentation, and review of the calculation, by reference to the qualifying service, scheme rules and benefit choices made by the member; • we have reviewed the actuarial valuation indicating the impact of the change to CPI discussed above, whilst having little impact on the current year this change will impact the future increases and therefore level of benefits being paid out of the scheme; and • we developed an expectation based on the prior year balance, adjusted for changes in membership numbers and pension increases to analytically review the benefits paid in the year. All testing was completed with satisfactory results.

1. Key audit risks (continued)

Investments	
Audit risk	The Fund makes some use of investments in unquoted investments vehicles, such as private equity houses. These funds are normally subject to external audit, however up to date audited accounts were not avialable at the time that the pension fund accounts were compiled and audited. In such cases, year end fair values of investments in such funds will need to be estimated on the basis of unaudited information. It is expected that the reasonableness of the fund managers' valuation could be assessed by comparison with the funds' latest available audited accounts as adjusted for subsequent cash movements (investments and distributions) between the pooled investment vehicle and the investors. However, market volatility means such comparison may be inappropriate especially when thre is a significant time period between the latest audited accounts and the fund year end. As these investments are more complex to value we have identified the Fund's investments in property and pooled investment vehicles as a significant risk.
Deloitte response	The following tests were performed to address the significant risk around investments: • we have reviewed the design and implementation of controls present at the Fund for ensuring investments are valued correctly; • we have reviewed the latest audited accounts for the funds and adjusted these to the period end for cash movements and compared to the valuation; • we have reconciled the total value of the investments held by the Fund as reported in the investment report from BNY Mellon to the value of investments reported in the Net Assets Statement; • We have compared the valuations provided by BNY Mellon to the reports provided by the investment manager; • we have performed a test of detail on a sample basis of the unquoted pooled investments to the valuations received from the external investment managers; and • in addition to gain assurance over the valuation of the quoted investments, we have performed a test of detail on a sample basis of quoted investment and compared the value reported by the BNY Mellon to the quoted price obtained from Bloomberg, DataStream or other third party sources. We are currently awaiting independent responses from the investment managers and as such our testing is not yet complete.

1. Key audit risks (continued)

Accounting for International Financial Reporting Standards (IFRS)	
Audit risk	The Code of Practice on Local Authority Accounting sets out how Local Government Pension Schemes should apply IFRS. The main implications for the City of London Corporation Pension Fund are as follows: • The requirement for the actuarial present value of promised retirement benefits to be disclosed, with three options for disclosure: o Option A – in the Net Asset Statement disclosing the resulting surplus or deficit; o Option B – in the notes to the Financial Statements; or o Option C – by referring to the actuarial information in an accompanying actuarial report. • Additional note disclosures required around the actuarial positions of the fund and the significant assumptions made. From discussion with the pensions team we note that the City of London Corporation Pension Fund have adopted Option B.
Deloitte response	Our reviews of the financial statements are not yet completed, however we have preliminarily reviewed the additional disclosures in the pension fund accounts. The disclosure made appears to comply with the requirements for Option B as detailed in the Code of Practice on Local Authority Accounting 2010/11.

Other risk areas – Management override of controls	
Audit risk	We are required by ISA 240 ' The auditors responsibility to consider fraud in an audit of the financial statements' to presume there is a significant risk of management override of the system of internal control
Deloitte response	Our audit work included: • we have reviewed analysis and supporting documentation for journal entries, key estimates and judgements; • we have performed substantive testing on journal entries to confirm that they have a genuine, supportable rationale; • we have reviewed ledgers for unusual items and on a test basis investigated the rationale of any such postings; • we have reviewed significant management estimates and judgements such as year end accruals and provisions and consider whether they are reasonable; and • we have made enquiries of those charged with governance as part of our planning and detailed audit processes. All testing was completed with satisfactory results.

1. Key audit risks (continued)

Other risk areas – Revenue recognition	
Audit risk	We are required by ISA 240 'The auditors responsibility to consider fraud in an audit of the financial statements' to presume there is a significant risk of fraud in revenue recognition and conduct our audit testing accordingly, unless the presumption is rebutted.
Deloitte response	Revenue in a pension scheme generally comprises contributions and investment income. Pension schemes are not profit-making entities and pension scheme accounts are not publicly available. Additionally, unlike sales revenue of a commercial entity, there is little scope to manipulate revenue of a pension scheme, for example, through false invoicing or misuse of credit notes. Given these facts, there is likely to be little incentive or opportunity for revenue to be fraudulently misstated and therefore limited risk of material misstatement arising due to fraud. We have considered the risk of fraud in revenue recognition in respect of the Fund and no significant risks have been identified. We are satisfied that the work performed in the current year has not indicated that the rebuttal of the revenue recognition risk is inappropriate.

2. Accounting and internal control systems

Control observation

During the course of our audit we identified two areas for improvement in the internal control systems which are detailed below:

Internal controls reports	
Observation	As with the prior period, we noted that Pyrford International does not produce an internal controls report under the AAF01/06 guidelines. Investments form the largest balance in the net asset statement, however the lack of such a report does not have a material impact on our audit opinion because of other mitigating controls in place. An internal controls report would highlight weaknesses in the control environment at the investment managers and is a useful tool to understand the management of the investments.
Recommendation	We recommend that management discuss with all investment managers the need for such an audited report. We also recommend that management review such reports to satisfy themselves over the impact of any exceptions noted in the reports.
Management response	To follow
Owner:	To follow

Bank accounts	
Observation	Following the implementation of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 that apply from 1 April 2011 is a new requirement for each pension fund to have a separate bank account. This change is being adopted because it will enable pension fund monies to be clearly ring-fenced from other monies of the local authority, and thus reflects a longstanding Audit Commission view on best practice. The scheme has set up the account in line with the required timeframe.
Recommendation	We recommend that the processes of the scheme be amended to utilise this account for all cash transactions regarding the pension scheme. This will give the Fund greater clarity over the transactions undertaken by the scheme and demonstrate improved governance and compliance with regulations.
Management response	To follow
Owner:	To follow

3. Current Accounting and Regulatory Issues

Upcoming financial reporting developments

For reference, the following developments in the pension industry may impact the governance arrangements and financial statements of the City of London Corporation Pension Fund. Whilst we appreciate that the Local Government Pension Scheme is not regulated by the Pensions Regulator, we consider their guidance to be indicative of what is currently considered to be best practice in the pensions sector.

The Local Government Pension Scheme (Benefit, Membership and Contributions) (Amendment) Regulations 2011	There are no key changes to regulation contained in this statutory instrument. The purpose of the statutory instruments is to clarify the regulation contained in the Local Government Pension Scheme (Benefit, membership and Contributions) Regulations 2007 where the member retires on the grounds of ill health.

The Pensions Regulator – financial incentive guidance	In December 2010, the Pensions Regulator issued guidance for trustees and employers on conducting incentive exercises including enhanced transfer value exercises. The guidance sets out principles which will enable employers and trustees to fully consider the risks associated with transferring benefits out of defined benefit schemes, or modifying benefits. The guidance sets out that trustees should start from the presumption that such exercises and transfers are not in most members' interests and should therefore approach any exercise cautiously. The regulator believes this reflects the majority of outcomes and is a sensible approach to ensure that scheme members are properly protected. For Local Government Pension Scheme's amendment to regulations arising from machinery of government changes will continue to be made by the Secretary of State issuing a statutory instrument.

3. Current Accounting and Regulatory Issues (continued)

The Pension Regulator – final employer support guidance	In November 2010, the Pensions Regulator published guidance, following consultation with the industry on employer support, focusing on encouraging trustees to take proactive steps to ensure there is adequate security for their pension scheme. The guidance sets out that the employer covenant – the employer's legal obligations to a defined benefit scheme, and its ability to meet them – is a crucial element in protecting members' benefits. The guidance provides information on what trustees should do to measure and monitor employer covenant and any subsequent action that might be required to strengthen scheme security. The guidance also provides information on how arrangements such as contingent assets can work alongside employer covenants to provide further safeguards. The recently published Purple Book showed a 16% increase in the use of contingent assets recognised by the PPF. Given the partnership working that is being undertaken by Local Authorities with the private sector, Local Government Pension Schemes are in general seeing an increased number of applications for employers to be admitted to the Scheme. Given the 'last man standing' nature of the Local Government Pension Scheme we consider that this guidance may be relevant to you when determining whether to admit new employers to the fund and if they are to be admitted what security should be requested of employers.

The Pensions Regulator – campaign on record keeping	The Pensions Regulator issued a statement on 9 February 2011 on "The importance of good scheme administration" which was aimed at scheme trustees and administrators. We understand from meetings with the Regulator, both as a firm and throughout representing the ICAEW that this is the first part of a campaign over the coming months by the Regulator to make clear its expectations on record keeping and the maintenance of member data in particular and the role trustees need to play in ensuring improvements are made as necessary. It advises that the trustees should be ready for a challenge as to why they are satisfied with the current record keeping of member records.

4. Other matters for communication

As part of our obligations under International Standards on Auditing (UK & Ireland), we are required to report to you on the matters listed below.

Independence	We consider that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and the objectivity of the audit engagement partner and audit staff is not compromised. If the Committee wishes to discuss matters relating to our independence, we would be happy to arrange this.
Non-audit services	We are not aware of any inconsistencies between APB Revised Ethical Standards for Auditors and the Administering Authority's policy for the supply of non audit services or of any apparent breach of that policy. An analysis of professional fees earned by Deloitte LLP in the period from 1 April 2010 to 31 March 2011 will be provided to the Audit and Risk Management Committee in a separate report to the committee on the City of London Corporation. Fees payable to the auditors for the audit of the pension scheme annual report of the City of London Corporation Pension Fund (excluding VAT) were £35,000 (2009/10 £35,000). Our fee is consistent with the scale fee determined by the Audit Commission.
International Standards on Auditing (UK and Ireland)	We consider that there are no additional matters in respect of those items highlighted in our publication "Briefing on audit matters" to bring to your attention that have not been raised elsewhere in this report or our audit plan.
Liaison with internal audit	The audit team, following an assessment of the independence and competence of the internal auditor, reviewed the findings of internal audits to inform the risk assessment and considered the impact on our audit approach. No adjustments were made to the audit approach as a result of our review of the work of internal audit.
Written representations	A copy of the representation letter to be signed on behalf of the Authority is attached at Appendix 1.
Relationships	There are no relationships (including the provision of non-audit services) we have with the City of London Corporation Pension Fund, its trustees and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence, together with the related safeguards that are in place.

5. Responsibility statement

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body and in this report is prepared on the basis of, and our audit work is carried out, in accordance with that statement.

This report should be read in conjunction with the "Briefing on audit matters" provided in our audit plan and sets out those audit matters of governance interest which came to our attention during the audit. Our audit was not designed to identify all matters that may be relevant to City of London Corporation Pension Fund and this report is not necessarily a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

This report has been prepared for the members of the City of London Corporation, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

Deloitte LLP

Chartered Accountants
St Albans
18 July 2011

Appendix 1: Draft representation letter

Deloitte LLP

Our Ref: ***MGB/NJ/2011*** ***Date:***

Dear Sirs

City of London Corporation Pension Fund (the "Fund")

This representation letter is provided in connection with your audit of the financial statements of the fund for the year ended 31 March 2011 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the Fund, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010, the financial transactions of the Pension Fund during the year ended 31 March 2011, and the amount and disposition of the fund's asset and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the fund year.

We acknowledge as members of City of London Corporations Pension Fund our responsibilities for ensuring that the financial statements are prepared which give a true and fair view, for keeping records in respect of active members of the Fund and for making accurate representations to you.

We confirm, to the best of our knowledge and belief, the following representations.

1. All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Fund have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of Officer and Committee member meetings, have been made available to you.

2. We acknowledge our responsibilities for the design, implementation and operation of internal control to prevent and detect fraud and error.

3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

4. We are not aware of any significant facts relating to any frauds or suspected frauds affecting the Fund involving:
   (i). management;
   (ii). employees who have significant roles in internal control; or
   (iii). others where the fraud could have a material effect on the financial statements.

5. We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by members, former members, employers, regulators or others.

6. We are not aware of any actual or possible instances of non-compliance with laws and regulations, the effects of which should be considered when preparing financial statements.

7. Where required, the value at which assets and liabilities are recorded in the net asset statement is, in the opinion of the Authority, the fair value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Fund. Any significant changes in those values since the balance sheet date have been disclosed to you.

8. We confirm the completeness of the information provided regarding the identification of related parties, and the adequacy of related party disclosures in the financial statements.
We have made enquiries of any key managers or other individuals who are in a position to influence, or who are accountable for the stewardship of the Fund and confirm that we have disclosed in the financial statements all transactions relevant to the Fund and we are not aware of any other such matters required to be disclosed in the financial statements, whether under Statement of Recommended Practice – Financial Reports of Pension Schemes (revised May 2007) ("Pensions SORP 2007") or other requirements.

9. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to wind up the fund. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Fund's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.

10. You have been informed of all changes to the Fund rules during the year and up to the current date.

11. We have not commissioned advisory reports which may affect the conduct of your work in relation to the Fund's financial statements.

12. No claims in connection with litigation have been or are expected to be received.

13. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

14. There have been no events subsequent to 31 March 2011 which require adjustment of or disclosure in the financial statements or notes thereto.

15. There have been no irregularities involving management or employees who have a significant role in the accounting and internal control systems or that could have a material effect on the financial statements.

16. The pension fund accounts and related notes are free from material misstatements, including omissions.

17. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

18. The Fund has satisfactory title to all assets.

19. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.

20. No transactions have been made which are not in the interests of the members of the Fund during the Fund year or subsequently.

21. We confirm that:

- all retirement benefits and schemes, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;
- all settlements and curtailments have been identified and properly accounted for;

- all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
- the actuarial assumptions underlying the valuation of the scheme liabilities (including the discount rate used) accord with the directors' best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the business;
- the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and
- the amounts included in the financial statements derived from the work of the actuary are appropriate.

22. All trades in complex financial instruments are in accordance with our risk management policies, have been conducted on an arm's length basis and have been appropriately recorded in the accounting records, including consideration of whether the complex financial instruments are held for hedging, asset/liability management or investment purposes. None of the terms of the trades have been amended by any side agreement and no documentation relating to complex financial instruments (including any embedded derivatives and written options) and other financial instruments has been withheld.

23. We confirm that the Pension Fund Annual Report is compliant with the requirements of Regulations 34(1)(e) of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance.

24. We confirm that the information that is contained within the Pension Fund Annual Report and Accounts for the year to 31 March 2011 is complete, accurate and consistent with the information that is contained within the Accounts.

We confirm that the above representations are made on the basis of adequate enquiries of other officials of the Fund (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed on behalf of City of London Corporation Pension Fund